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# The Future of China's Financial Statecraft

Scenarios for China's Growth and  
External Financial Position through 2030

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## Contents

<b>EXECUTIVE SUMMARY</b>	<b>3</b>
<b>INTRODUCTION</b>	<b>5</b>
<b>1. DEFINING FINANCIAL STATECRAFT</b>	<b>7</b>
<b>2. A BRIEF HISTORY OF CHINA'S FINANCIAL STATECRAFT</b>	<b>9</b>
<b>PRE-REFORM ERA: 1949-1978</b>	<b>9</b>
<b>REFORM AND OPENING: 1979-2000</b>	<b>10</b>
<b>RAPID TRADE INTEGRATION: 2001-2008</b>	<b>13</b>
<b>CREDIT BOOM AND EXTERNAL ASSET DIVERSIFICATION: 2009-2016</b>	<b>16</b>
<b>GROWTH SLOWDOWN, PANDEMIC AND DE-RISKING: 2017-2024</b>	<b>20</b>
<b>3. THREE SCENARIOS FOR CHINA'S GROWTH AND EXTERNAL FINANCIAL POSITION THROUGH 2030</b>	<b>26</b>
<b>SCENARIO 1: POLICY STAGNATION</b>	<b>26</b>
<b>SCENARIO 2: HALF MEASURES</b>	<b>33</b>
<b>SCENARIO 3: REFORM AND REBALANCING</b>	<b>41</b>
<b>CONCLUSIONS AND POLICY IMPLICATIONS</b>	<b>50</b>
<b>REFERENCES</b>	<b>55</b>
<b>METHODOLOGY APPENDIX</b>	<b>58</b>

## Executive summary

China has entered a structural economic slowdown that will profoundly impact its role in the global economy. This report presents three scenarios for China's economic development and external financial position through 2030 and analyzes the implications for China's financial statecraft capacity and preferences.

### Main findings

**1. China's international financial integration is likely to stagnate or decline further.** Since 2010, China's external assets and liabilities have grown more slowly than its domestic economy, reducing its relative exposure to international finance. Absent deep structural reforms, capital controls and regulatory rigidities will continue to constrain China's cross-border financial integration.

**2. Despite slower external financial integration, China's financial statecraft capacity will expand.** Slower domestic growth and external financial integration will lower China's "pull" as destination for global capital. However, China will remain among the top ten economies in terms of external financial assets and one of the largest global creditors—far surpassing any other emerging market and autocratic nation. Beijing will have significant resources to project influence through lending, aid, infrastructure finance, and targeted foreign direct investment.

**3. The composition of China's external assets will move towards FDI and portfolio investment.** Under all scenarios, China's outbound financial assets will continue to grow, but their composition will evolve. Foreign direct investment (FDI) will remain dominant through 2030 under all scenarios as Chinese companies are forced to accelerate global expansion. Portfolio investment has already grown significantly in the past decade and could rise substantially if successful domestic reforms allow Beijing to further liberalize outbound investment controls.

**4. State control will remain a defining feature of China's external finance.** About three quarters of China's current external financial assets are directly or indirectly controlled by sovereign or state-linked entities such as the central bank, policy banks, and state-owned enterprises. Even under reform, Beijing will still control two thirds of external financial assets directly and retain strong levers to influence the remainder, making China an outlier when it comes to government control over external financial assets.

**5. China's efforts to diversify away from advanced economies face structural limits.** Although Beijing promotes South-South financial ties and BRI lending, China's exposure to advanced markets—especially the United States—remains deep. Much of the apparent diversification simply reflects routing through offshore centers like Hong Kong or the Cayman Islands. The increase of outbound FDI and portfolio investments under the reform scenario could further increase China's investments in the deep and liquid financial markets of high-income economies in North America, Europe and Asia.

**6. Transparency is poor and may deteriorate further.** China's balance of payments and international investment position (IIP) data contain inconsistencies, reflecting the widespread use of offshore structures by households and firms as well as political manipulation. These opaque "grey capital" pools obscure true ownership, complicate global risk assessments, and heighten concerns about illicit financial activity.

## Policy implications for the United States

China's financial globalization may have plateaued, but its ability to mobilize large pools of state-controlled capital abroad—through policy banks, sovereign funds, and state-owned enterprises—will continue to grow. US policymakers should focus on targeted, sector-specific measures to counter areas where Chinese financial activity challenges US economic, security, and governance interests, while maintaining space for pragmatic cooperation if China's trajectory shifts toward reform and openness.

**1. Right-size the China challenge.** China is unlikely to become a global financial superpower, but it will remain the largest non-democratic participant in global finance and a leading creditor to developing economies. US strategy should avoid alarmism while recognizing that China's state-driven model grants Beijing unique geopolitical leverage through lending, investment, and other channels.

**2. Promote transparency.** The US should lead multilateral efforts—through the IMF, G20, and Financial Stability Board—to improve the quality, comparability, and disclosure of China's balance-of-payments and IIP data. These efforts could also include private initiatives to track Chinese offshore holdings and "grey capital" flows through financial hubs such as Hong Kong and Singapore. Greater transparency is critical to identifying systemic risk, illicit activity, and coercive financial practices.

**3. Expand competitive financing tools.** The US should strengthen US and allied development finance mechanisms—including the Development Finance Corporation, EXIM Bank, and G7 Partnership for Global Infrastructure and Investment—to provide credible, high-standard alternatives to Chinese lending. Additional components include anti-coercion frameworks that protect developing countries from financial pressure and an expansion of private capital mobilization for strategic infrastructure, climate, and digital projects.

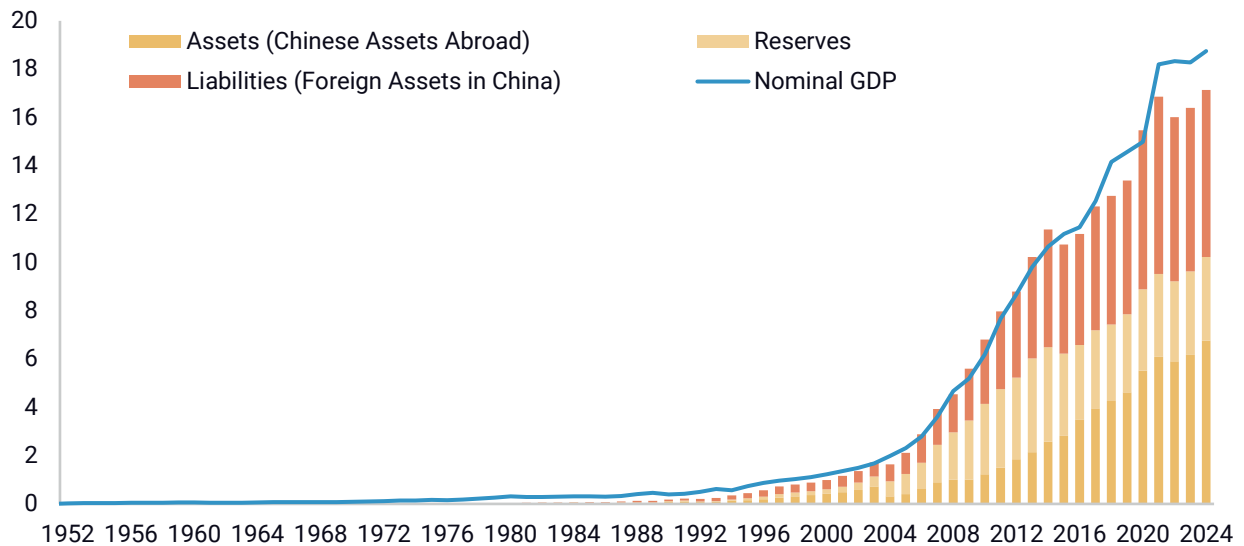
**4. Improve defensive policies.** The US should continue to upgrade US and allied nation toolkits for financial resilience and investment security. This includes refining sanctions and export controls to punish Chinese entities investing in adversarial nations, tightening outbound investment reviews for sensitive technologies, and enhancing monitoring of Chinese state-linked funds and intermediaries active in strategic sectors such as semiconductors, AI, and critical minerals. The US should also contemplate additional policies and frameworks that would help level the playing field for US and other international firms to compete with emerging Chinese multinational corporations in third markets.

**5. Explore opportunities for engagement and collaboration.** Even amid strategic competition, selective cooperation with China can serve shared global interests. The US should pursue targeted engagement on climate finance, especially around green infrastructure and transition funding, coordinate on sovereign debt restructuring in the Global South, and improve dialogue on global financial stability to manage cross-border contagion risks. Constructive engagement in these domains can reduce friction and preserve US influence in shaping international norms.

## Introduction

Over the past four decades, the People's Republic of China (PRC) has undergone rapid economic modernization. China's gross domestic product (GDP) has skyrocketed from less than half a trillion dollars in 1990 to almost \$18 trillion in 2024, making China the second-largest economy after the United States.<sup>1,2</sup> This remarkable domestic growth has translated into a greater weight for China in the global economy. China has become the largest trading nation on earth, with combined exports and imports of more than \$6 trillion in 2024.<sup>3</sup> China has also rapidly expanded its external financial position, growing its combined external assets and liabilities from less than half a trillion dollars in 1990 to \$17 trillion in 2024 (Figure 1).

FIGURE 1  
China's gross domestic product and gross international investment position  
USD trillion



Source: PRC State Administration of Foreign Exchange (SAFE) and National Bureau of Statistics (NBS).

The growth of cross-border investment and lending has put China in a position to wield its financial power and attempt to bring about preferred policy outcomes through financial statecraft. In the early days of reform, Beijing used its control over outbound financial flows to accumulate reserves as a defensive buffer and leveraged its control of inbound financial flows to extract technology and other benefits for China's economic development.

<sup>1</sup> National Bureau of Statistics of China (2001). *Statistical Communiqué of the People's Republic of China on the 1990 National Economic and Social*

*Development*. [https://www.stats.gov.cn/sj/tjgb/ndtjgb/qgndtjgb/202302/t20230206\\_1901933.html](https://www.stats.gov.cn/sj/tjgb/ndtjgb/qgndtjgb/202302/t20230206_1901933.html).

<sup>2</sup> National Bureau of Statistics of China (2025). *Preliminary Accounting Results of GDP for the Fourth Quarter and Full Year of 2024*. [https://www.stats.gov.cn/english/PressRelease/202502/t20250207\\_1958578.html](https://www.stats.gov.cn/english/PressRelease/202502/t20250207_1958578.html).

<sup>3</sup> The State Council of the People's Republic of China (2025). *China's Foreign Trade Hits New High in 2024*. [https://english.www.gov.cn/archive/statistics/202501/13/content\\_WS6784a546c6d0868f4e8eec59.html](https://english.www.gov.cn/archive/statistics/202501/13/content_WS6784a546c6d0868f4e8eec59.html).

The growth of outbound financial flows in the following decades multiplied Beijing's financial statecraft capabilities. The rapid expansion of aid and lending by Chinese policy and other state-owned banks have made China one of the key creditors for Global South economies.<sup>4</sup> The growth of Chinese outbound FDI has turned Chinese companies into important contributors to local economies in terms of employment, exports, and tax revenue.<sup>5</sup> China's sovereign investment vehicles and banks have become significant investors in global debt and equity markets.<sup>6</sup> China has used its financial statecraft to support various political goals including undermining recognition of Taiwan, increasing China's influence in global governance institutions, and reducing opposition in territorial conflicts.

After decades of rapid growth, China's economic growth engine is now sputtering. Beijing has sustained high growth rates in the 2010s primarily through an unprecedented credit bubble, which is now unwinding. Due to rising debt levels and other pressures, China's financial system won't be able to generate the same levels of credit growth that it has in the previous decade, reducing growth to low single digits.<sup>7</sup> This slowdown of economic growth and Beijing's policy response are already impacting the trajectory of China's external capital flows. Since 2022, inbound FDI and foreign interest in Chinese securities have declined precipitously: Outbound lending by policy banks has crashed while outbound FDI by companies and "grey" capital outflows—money leaving through informal channels—have grown rapidly. Going forward, domestic policy decisions will shape China's external financial configuration, and thus its financial statecraft capacity.

This study assesses the outlook for China's external financial configuration and financial statecraft capacity through 2030. It posits three scenarios for China's economic policy direction from 2025 through 2030, running from an optimistic "reform" scenario where China addresses ongoing systemic risks and reduces existing barriers to foreign economic participation, to a downside scenario where accumulating risks in China's financial system trigger a slow financial crisis that necessitates a heavy-handed government response. Based on these scenarios, it analyzes China's external financial configuration in terms of assets and liabilities and discuss Beijing's direct and indirect financial statecraft capacity.

**Section 1** defines financial statecraft. **Section 2** provides a brief historical overview of China's IIP and financial statecraft behavior from the founding of the PRC to 2024. **Section 3** presents three scenarios for China's economic growth, IIP and financial statecraft capacity and priorities. The **conclusion** summarizes the results and discusses the implications for the United States.

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<sup>4</sup> Cerutti, E., Koch, C., and Pradhan S. (2020). *Banking Across Borders: Are Chinese Banks Different?* IMF Working Papers 20, no. 249. <https://doi.org/10.5089/9781513561226.001>.

<sup>5</sup> X. Fu, Buckley, P.J., and Fu., X.M. (2020). *The Growth Impact of Chinese Direct Investment on Host Developing Countries*. International Business Review 29, no. 2: 101658. <https://doi.org/10.1016/j.ibusrev.2019.101658>.

<sup>6</sup> Hanemann et al (2021). *Two-Way Street: 2021 Update US-China Investment Trends* US-China Investment Project [https://rhg.com/wp-content/uploads/2021/05/RHG\\_TWS-2021\\_Full-Report\\_Final.pdf](https://rhg.com/wp-content/uploads/2021/05/RHG_TWS-2021_Full-Report_Final.pdf).

<sup>7</sup> Wright, L. (2023). *The End of China's Magical Credit Machine*. Rhodium Group. <https://rhg.com/research/magical-credit-machine/>.

## 1. Defining financial statecraft

Financial statecraft is closely tied to the broader concept of economic statecraft, a term that describes how countries leverage their economic resources to exert influence in pursuit of foreign policy objectives.<sup>8</sup> The concept of *financial* statecraft is narrower and relates to a country's intentional use of financial interactions (credit, investment, and currency markets) to pursue political outcomes.<sup>9</sup> This report analyzes China's financial statecraft, defined as **China's intentional (or unintentional) use of monetary or financial resources, interactions, or capabilities to affect policy choices of other countries in line with China's preferences.**<sup>10</sup>

Financial statecraft can be further split into two main dimensions (Table 1). **Direct statecraft** involves a country's outbound financial flows like loans or investment. China's direct financial statecraft includes inducements (providing or promising flows) or negative sanctions (inhibiting flows or making them subject to conditions) to incentivize or encourage countries to align with China's preferred positions or policies. **Latent statecraft** consists of a country's overall economic weight or general attractiveness as an economic partner. China's latent financial statecraft may be likened to the pull effects of China's financial stature that can influence foreign country policies. It is related to, but not the same as, China's soft power. Latent influence includes China's relative influence in international organizations.<sup>11</sup> China's overall financial statecraft capability is function of both the overall level of cross-border financial flows as well as its overall attractiveness as an economic and financial marketplace.

TABLE 1  
Types of financial statecraft

Direct statecraft	Latent statecraft
Flows (or promises of flows)	Economic weight/attractiveness
Example: Loans to developing world (push)	Example: Inbound investment (pull)
China's use of economic inducements (providing economic/financial flows) or negative sanctions	The pull effects of China's economic size/weight/pre-eminence that influence changes in a foreign country's policies.

<sup>8</sup> Baldwin, D. A. (1985/2020). *Economic Statecraft*. Princeton University Press. Economic statecraft in turn is tied to (but not always synonymous with) the concept of "geoeconomics," discussed at length in Blackwill, R. and Harris, J. (2016). *War by Other Means: Geoeconomics and Statecraft*.

<sup>9</sup> Vinod, K. A., and Cheung T. (2024) *The Oxford Handbook of Geoeconomics and Economic Statecraft*, Oxford Handbooks. Available from <https://doi.org/10.1093/oxfordhb/9780197673546.013.1>

<sup>10</sup> For general treatments of China's economic and financial statecraft, see: Reilly, J. (2021). *Orchestration: China's Economic Statecraft across Asia and Europe*. Oxford University Press; Norris, W. (2016). *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*, 1st ed. Cornell University Press; Reilly, J. (2013). *China's Economic Statecraft: Turning Wealth into Power*. Lowy Institute/Brookings.

<sup>11</sup> A secondary type of statecraft includes China's attempts to set up new institutions to parallel or compete with existing ones. These are not targeted at any one country. Institutions like AIIB are most relevant as sources of direct (flow) statecraft but may have latent effects by affecting perceptions of China's role/norms/international financial standards and architecture.

(cutting off or conditioning economic/financial flows) to influence changes in a foreign country's policies.<sup>12</sup>

Source: Author compilation.

The analysis of China's external financial power projection can be structured around **five main types (or domains) of financial flows**, which closely follow the categorization of cross-border financial flows under the System of National Accounts used by the International Monetary Fund (IMF) and most governments. Table 2 shows these five domains and examples of positive and negative tools for each.

TABLE 2  
Financial statecraft domains and tools

Domain	Primarily positive tools	Primarily negative tools
<b>Debt and lending</b> <sup>13</sup>	Official loans (including zero-interest and concessional loans), commercial-term loans, debt write-offs, debt instrument purchases	Guarantee calls, legal proceedings, debt renegotiation, selling or threat of selling debt instruments
<b>Aid</b>	Grants Other in-kind aid and advisors	Withdrawal or withholding aid
<b>FDI</b>	FDI flows (outbound), favorable conditions for China market access, formal investment agreements	Political interference in outbound investment decisions, global merger reviews, foreign goods or service boycotts, other administrative measures against foreign invested firms, sanctions, informal discrimination of foreign firms
<b>Portfolio investment</b>	Outbound portfolio investment flows; setup of bilateral investment funds; investment commitments from sovereign entities; access to China's onshore securities market through quotas, JVs, and licenses	Revoking or delaying securities market licenses
<b>Foreign exchange</b>	Currency swap lines, <sup>14</sup> granting RMB "hub" status	

Source: Author compilation.

Finally, it is important to note that it is difficult to conclusively determine that financial statecraft was effective in influencing a country to adopt policies that it would not otherwise have adopted. Though scholars and analysts often attribute policy changes to economic or financial statecraft by China, it is difficult to conclusively determine that China's financial statecraft was effective in influencing a country to adopt policies that it would not otherwise have adopted. At best, economic statecraft can be correlated with a

<sup>12</sup> Can be actual or promised/threatened measures. This also includes flow-conditioning measures like investment restrictions.

<sup>13</sup> This category includes subsidized loans from the Export-Import Bank of China (China EXIM) that are part of China's foreign aid program: government concessional loans (GCL) that are subsidized by the Chinese government. It also includes preferential buyer's credits (PBC), which are also subsidized but do not qualify as aid.

<sup>14</sup> Central bank swap lines allow foreign central banks to temporarily obtain RMB from China's central bank. These can be thought of as a type of collateralized loan. Recently, several countries (including Mongolia and Argentina) have used RMB swap lines as a temporary bailout when their foreign exchange reserves depleted.

positive outcome for China or Chinese actors.<sup>15</sup> Indeed, much of China's direct economic statecraft is prospective (or pre-emptive): It does not come with specific asks or quid-pro-quos. Instead, China's economic statecraft builds general relationship between the PRC and the target country and incentivizes countries to consider China's stated (or probable) preferences when determining policy changes.

## 2. A brief history of China's financial statecraft

This section provides an overview of China's external investment position and financial statecraft since the founding of the PRC in 1949 to 2024. For the sake of simplicity, these 75 years are divided into five distinct periods and describe China's domestic economic development, its external financial position, and the resulting financial statecraft capabilities and priorities (Figure 2).

FIGURE 2  
Five periods of China's financial statecraft



Source: Author compilation.

### Pre-reform era: 1949-1978

Before China's reform and opening era, China's financial statecraft capacity was limited by the internal orientation of its economy and tight controls on outbound and inbound financial flows. Social and economic disruption at home, including the disastrous Great Leap Forward and Cultural Revolution, weighed on economic growth and forestalled changes to China's economic system. Data on economic growth and China's external assets and liabilities during the period are questionable, but growth was low and China's foreign asset and liabilities remained miniscule.<sup>16</sup>

China's outbound finance and direct financial statecraft was almost exclusively limited to foreign aid during the pre-Deng period. China's aid program sought to promote friendly relations with foreign countries, particularly communist nations, but also to secure support for the PRC's bid to join the United Nations beginning in the 1970s.<sup>17</sup> Foreign aid—consisting of grants, interest-free or low-interest loans, and “turnkey” projects—was spent beyond China's means. From 1960 to 1979, China's average aid spending totaled over \$350 million per year, an extraordinary amount for a developing country. Though this

<sup>15</sup> Examples include Cambodia's decision to deport several dozen Uyghur refugees in 2009 (around the time China announced new investment and lending), Greece's 2017 reluctance to support EU statements critical of China (around the time of major Chinese investment in Greek ports), or statements from Uganda's foreign ministry formally supporting China's repression of protestors in Hong Kong in 2019.

<sup>16</sup> Maddison, A. (2007) *Chinese economic performance in the long run*. OECD Development Centre Studies. <https://content.csbs.utah.edu/~mli/Economics%205420-6420/Maddison-Chinese%20economic%20performance%20in%20the%20long%20run.pdf>

<sup>17</sup> Kim, S. (1974). *The People's Republic of China in the United Nations: A Preliminary Analysis*. *World Politics* 26, no. 3 (1974): 299-330. <https://doi.org/10.2307/2009932>.

reflected foreign policy priorities, it was also a product of China's ideological goals under Mao. China's aid program adhered to several strict core principles, among them, non-interference in recipients' internal affairs, the promotion of self-reliance, and solidarity with fellow developing countries. China also committed to the use of highly concessional instruments: Under the "eight principles" articulated by Zhou Enlai in 1964, China pledged to deliver aid to other developing countries in the form of grants and interest-free or low-interest loans, with limited focus on repayment.<sup>18</sup> Aid projects also reflected prevailing domestic economic policy structures, being tightly controlled by official ministries and directed to a narrow range of industries and applications.<sup>19</sup> China's aid program focused heavily on African countries, with some aid to communist countries like Cuba, and non-aligned countries like Cambodia and Nepal that recognized the PRC over Taiwan. China gradually extended aid to Latin America and other regions as more countries switched diplomatic recognition, but its aid program was not global in the broadest sense.<sup>20</sup>

Although China's early financial statecraft can be said to have been successful at accomplishing several specific goals, most notably UN recognition, its broad financial statecraft capacity remained very limited. Outbound investment was next to nonexistent, and the lure of China's domestic economy—its latent statecraft capacity—was limited to natural resource exports.

### **Reform and opening: 1979-2000**

This situation began to change with the death of Mao in 1976, as the new leadership began to open China's economy to foreign trade and investment in the late 70's and early 80's. Deng Xiaoping and other leaders executed a series of economic reforms that allowed limited development of private markets and a de-collectivization of agricultural and local enterprises. By allowing commercial activity to "grow out of the system" (the "system" being characterized by centrally mandated production quotas), Deng and reformers changed the course of the PRC's economic development.<sup>21</sup> China's economy started to recover, and GDP growth averaged 9.7% in the 1980s and about 10% in the 1990s, with a notable dip after the Tiananmen Square crackdown in 1989 (Figure 3).

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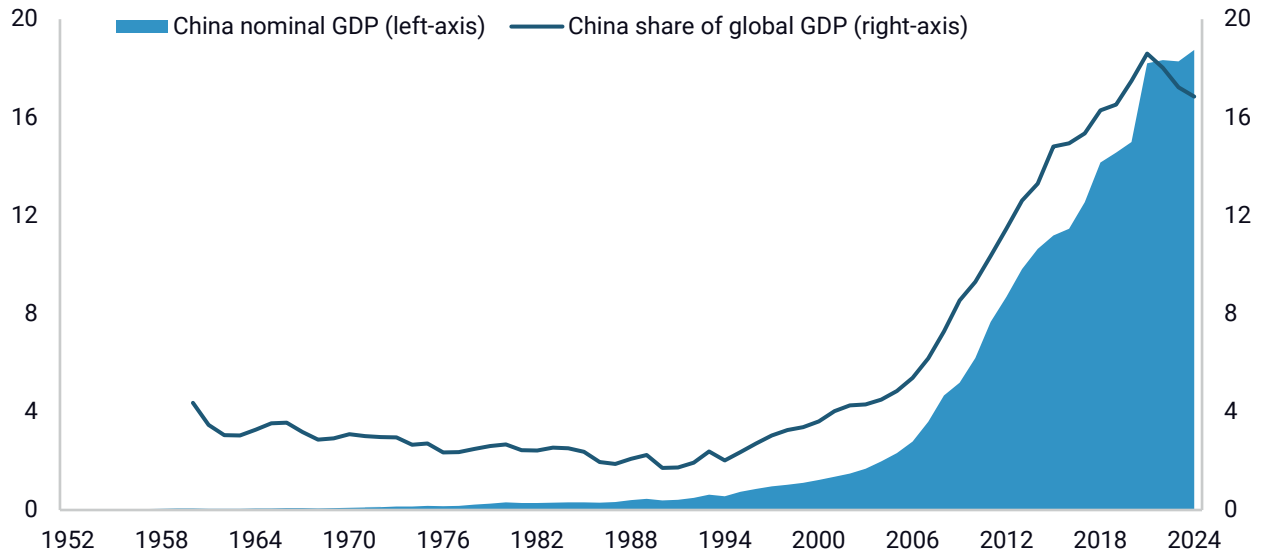
<sup>18</sup> The term "grants" is used as a catch-all to refer to cash grants, in-kind aid, and turnkey projects where funds are allocated by Chinese aid authorities directly to Chinese aid contractors, which undertake and complete projects within the recipient country. Other forms of Chinese aid at the time included (and continue to include), medical teams, technical cooperation and training, debt forgiveness, and other instruments.

<sup>19</sup> Aid decisions and disbursements were tightly controlled by the Commission of Foreign Economic Relations (later, the Ministry of Foreign Economic Relations, directly under the State Council), alongside the Ministry of Foreign Affairs (MOFA). Major infrastructure projects, including the famous Chinese-build Tanzania-Zambia railway, were also funded by low-interest Chinese loans, alongside hospitals and a handful of prestige projects. Although some early aid projects, especially in agriculture, mirrored the socialist and collective policies of Mao in China, in practice, China did not push recipients to adopt socialist or collectivist policies as a condition of receiving aid or during implementation.

<sup>20</sup> Maggiorini, L. (2019). *Taiwan's Development Aid to Latin America and the Caribbean and the One China Policy*. *Revista Razón Crítica*, no. 7: 177-208.

<sup>21</sup> Naughton, B. (2010). *Growing Out of the Plan*. Cambridge University Press.

FIGURE 3  
**China's nominal GDP and share of global GDP**  
 Current USD (trillions), percent



Source: Author compilation based on data from NBS, World Bank.

Over this period, the PRC also gradually opened its doors to the outside world by accepting and encouraging FDI and loans to finance growth-facilitating infrastructure. In the early 1980s, Deng Xiaoping dramatically shifted the nation's external stance with an "Open-Door Policy," which aimed to encourage greater trade and investment with the rest of the world, specifically by means of FDI in newly created special economic zones.<sup>22</sup>

Japan was the first to experiment with resource-backed concessional loans in China, using subsidized yen loans to fund thermal and hydroelectric power production, mining, and telecommunications projects within China, many of which were paid back with oil.<sup>23</sup> Inbound flows into China took the form of resource-backed loans, US Eximbank trade credits and other lines of credit, as well as grants and aid. Mixed investment and aid deals were offered by various Western countries. France, for example, gave China a \$221 million line of credit as well as a grant to assess the feasibility of a dam in the hopes that China would contract a French company to construct the dam.<sup>24</sup>

FDI started modestly in the 1980s and mostly concentrated on special economic zones along the coast, often financed by "overseas Chinese" capital routed via Hong Kong.<sup>25</sup> Momentum accelerated after Deng Xiaoping's 1992 Southern Tour. Realized inward FDI jumped to \$26 billion in 1993 and settled in the \$40–45 billion range annually in the latter half of the 1990s, making China the largest developing-country host of FDI globally.<sup>26</sup> FDI mostly came in the form of greenfield projects and targeted export-oriented manufacturing industries in the runup of China's accession to the World Trade

<sup>22</sup> Howell, J. (2015). In *China in the Era of Deng Xiaoping: A Decade of Reform*. Routledge, 28.

<sup>23</sup> Brautigam, D. (2009). *The Dragon's Gift: The Real Story of China in Africa*, p. 48–50. Oxford University Press.

<sup>24</sup> Brautigam 50.

<sup>25</sup> Nicholas, R., L. (1992). *Foreign Trade and Economic Reform in China, 1978–1990*. Brookings.

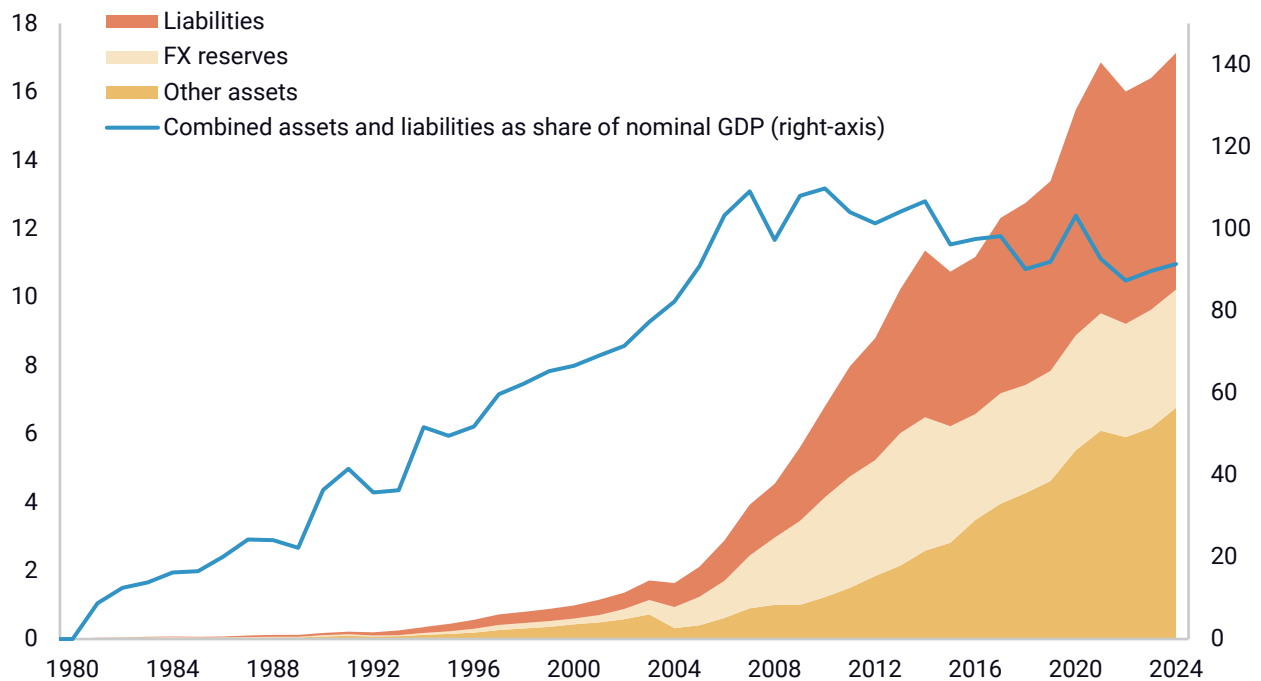
<sup>26</sup> Yasheng, H. (2003). *Selling China: Foreign Direct Investment During the Reform Era*. Cambridge Univ. Press.

Organization (WTO). Foreign investors often engaged in joint ventures with local firms that involved the transfer of technology and know-how and profit sharing.<sup>27</sup>

While foreign investment in China and export revenue started to grow, Beijing maintained tight controls on outbound flows, which allowed the central bank to accumulate foreign exchange reserves. China's reserves grew from \$2.5 billion in 1980 to \$168 billion in 2000. Those reserves accounted for 39% of China's external assets in 2000, with the remainder falling into trade credit and other channels controlled by state-owned entities. Households or private companies did not own significant overseas assets.

Overall, the level of China's cross-border capital flows increased throughout the 1980s and 1990s compared to the historical baseline, mostly due to an expansion of inward FDI and the accumulation of reserve assets as a result of FDI and trade surpluses. The sum of China's external assets and liabilities expanded from \$25 billion in 1981 to around \$1 trillion in 2000, boosting the ratio of external assets and liabilities to GDP from 9% to 67% (Figure 4).

FIGURE 4  
China's external assets and liabilities as share of nominal GDP  
Current USD (trillions); percent



Source: Author compilation based on data from China SAFE, IMF and Milesi-Ferretti, Gian Maria, 2024, "The External Wealth of Nations Database," The Brookings Institution (based on Lane, Philip R. and Gian Maria Milesi-Ferretti, 2018, "The External Wealth of Nations Revisited: International Financial Integration in the Aftermath of the Global Financial Crisis," IMF Economic Review 66, 189-222).

<sup>27</sup> Rosen, D. (1998). *Behind the Open Door - Foreign Enterprises in the Chinese Marketplace*. The Peterson Institute for International Economics.

This increase in cross-border capital flows allowed China to expand its financial statecraft tools. Before 1978, Chinese financial statecraft had been almost exclusively characterized by aid, but in the reform and opening era commercial lending began to play a more significant role. Beginning in the early 1980s, China set aside funding to incentivize the creation of joint ventures between Chinese companies and host country state-owned enterprises in developing nations.<sup>28</sup> By the late 1980s, Chinese firms had developed robust credit/resource swap agreements, using the resources created by developing infrastructure in African countries like the Democratic Republic of the Congo and Mali to repay loans.<sup>29</sup> This paved the way for increased amounts of resource-backed lending in subsequent decades. China also continued with diplomatic competition with government of Taiwan, each side offering grants and aid in return for diplomatic recognition, often incentivizing countries to switch back and forth between the two.<sup>30</sup>

China was also able to leverage its existing foreign exchange reserves and access to its nascent market as bargaining tools to get out of economic sanctions in the wake of the 1989 Tiananmen Square massacre. In 1990, Tokyo was the first country to cease sanctions on China and resume giving foreign aid to the country in the expectation of increasing access to China's domestic market.<sup>31</sup> Chinese aid to African countries also increased sharply from \$60.4 million in 1988 to \$375 million by 1990 in a bid to win allies during China's moment of relative international isolation.<sup>32</sup>

The 1997 Asian Financial Crisis—largely caused by rapid foreign investment outflows in Asian economies—was another moment for China to demonstrate greater financial statecraft capabilities. In the wake of rapidly devaluing Asian currencies, the People's Bank of China (PBOC) was able to use its sizeable pile of foreign exchange reserves to intervene in markets and keep the Chinese yuan stable against the US dollar. China's behavior prevented competitive devaluations and helped avoid further contagion in the region, earning China enormous political and economic credibility with its neighbors. It was also the starting point for China to play a more active role in creating regional financial governance institutions. The Chiang Mai Initiative (CMI) was formed in 2000 with the mission of supplying foreign currency in the form of currency swaps to member countries struggling with rapid outflows. China spearheaded the CMI to supplement the IMF by providing liquidity to Asian markets to avoid further regional volatility—another use of direct statecraft that solidified China's position as a regional power and enhanced its ability to project latent statecraft.<sup>33</sup>

## Rapid trade integration: 2001-2008

During the first decade of the 21st century, China's economy boomed because of continued market reforms, accession to the WTO, and robust infrastructure investment. Nominal GDP quadrupled from \$1.0 trillion in 2000 to \$4.7 trillion in 2008. Per capita GDP reached of \$3,524 by 2008, catapulting China into upper-middle income status (Figure 5).

<sup>28</sup> Brautigam (2009), 49.

<sup>29</sup> Brautigam 50.

<sup>30</sup> Wu, C. (2024). *Switching Diplomatic Recognition Between Taiwan and China*. Routledge.

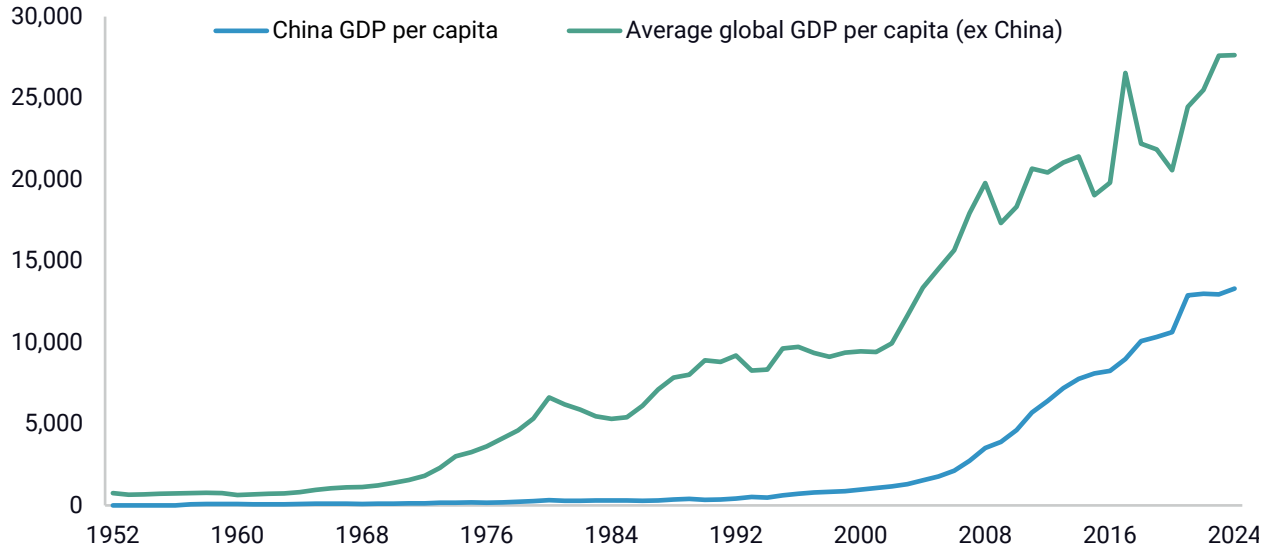
<sup>31</sup> Reilly (2021), *Orchestration*, 25.

<sup>32</sup> Taylor, *The 'All-Weather Friend'?: Sino-African Interaction in the Twenty-First Century Africa* in *International Politics* Routledge.

<sup>33</sup> Henning, C.R. (2009). *The Future of the Chiang Mai Initiative: An Asian Monetary Fund?* PIIE Policy Brief PB09-5.

During this decade, China became a centerpiece in international supply chains and its relative resilience to the financial crises in 2000/2001 and 2007/2008 helped boost China's share in global GDP from 4% to 7% at the end of the period.

FIGURE 5  
Per capita gross domestic product: China vs. ROW  
USD



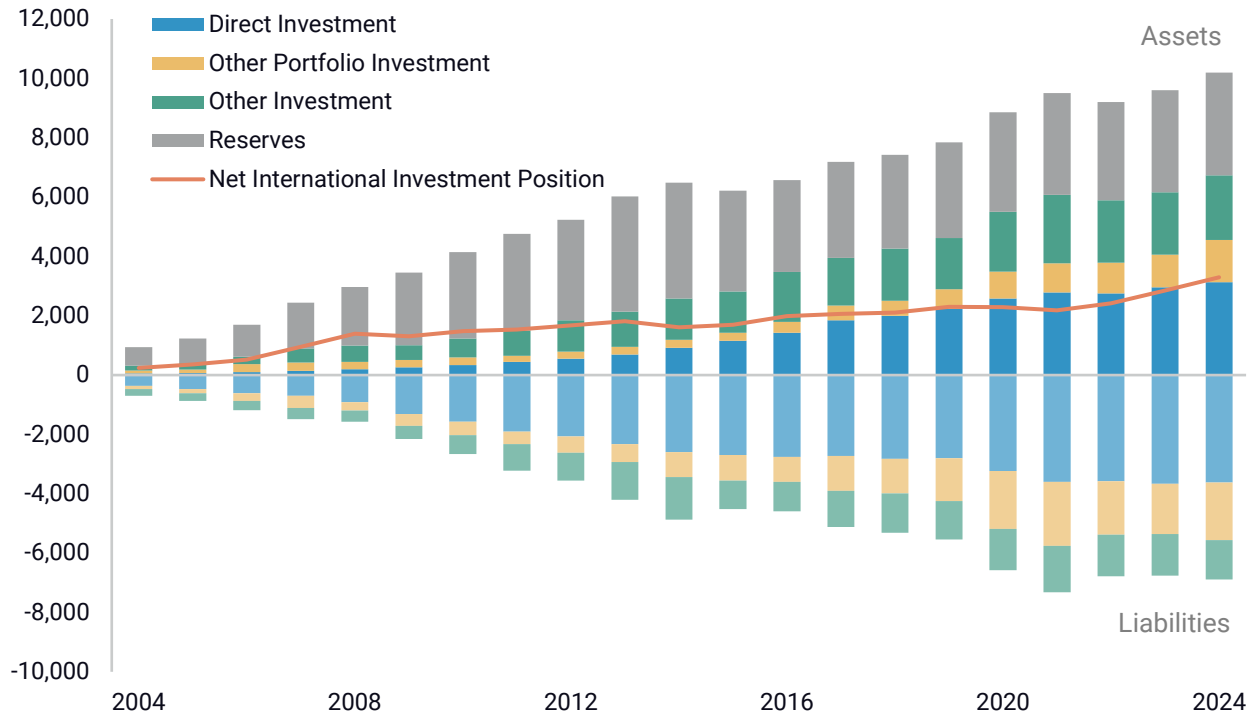
Source: IMF.

China's IIP saw a dramatic expansion during the 2000s, with combined assets and liabilities reaching \$4.5 trillion or 97% of GDP in 2008. Foreign assets in China grew to \$1.6 trillion as China's WTO accession, its abundant labor pool, rapid urbanization, local infrastructure investment and a stable exchange rate boosted FDI inflows. China also began some gradual reforms to ease controls on other types of foreign capital inflows—for example the launch of the Qualified Foreign Institutional Investor (QFII) scheme in 2002, which allowed foreign portfolio investment by approved investors within tightly controlled quotas—but inflows remained small.

China's assets abroad jumped to \$3 trillion by 2008 and continued to be dominated by reserves. Beijing started to encourage outbound FDI under its "going global" campaign in 2000, but investments remained subject to government approvals and the scale remained modest. Other investment assets also began to expand, reflecting trade credit and other flows related to China's rapid expansion of cross-border goods trade. In 2006, China launched a pilot program for controlled portfolio investment outflows—the Qualified Domestic Institutional Investor (QDII) scheme—but outflows remained marginal. More than 66% of China's external assets in 2008 were reserves managed by China's central bank, which were mostly held in US Treasury bonds and other overseas debt holdings.

As a result of its trade surplus and uneven expansion of assets and liabilities, China became one of the largest net creditors in the world with a net IIP of \$1.4 trillion in 2008 (Figure 6).

FIGURE 6  
**Breakdown of China's international investment position**  
 USD billion



Source: Author compilation based on data from State Administration of Foreign Exchange.

The main priority of China's financial statecraft during this period was to create the required stability to implement structural reforms and modernize the domestic economy. Beijing not only incentivized FDI to generate export surplus but also conditioned foreign investment to modernize its industrial base and technology. Despite general liberalization of FDI in manufacturing, Beijing controlled foreign investor access through a list-based approach that prevented foreign control over strategic sectors such as utilities, banking, or legal services. Small minority stakes were used to modernize corporate governance and prepare for partial listings of state-owned enterprises without giving up control. The control over the financial system allowed the state and party to absorb trade surpluses, control shorter-term cross-border financial flows, manage the exchange rate, expand its buffer of foreign exchange reserves, while at the same time controlling domestic interest rates and allowing for cheap funding for the industrial companies.

There was modest encouragement of outbound FDI by Chinese firms but historical concerns about capital flight and loss of state assets meant that it was mostly large state-owned enterprises in energy and other upstream resources who were approved for outbound investments. Greater encouragement of outbound investment was in no small part driven by the desire to reduce China's dependence on foreign oil and resource

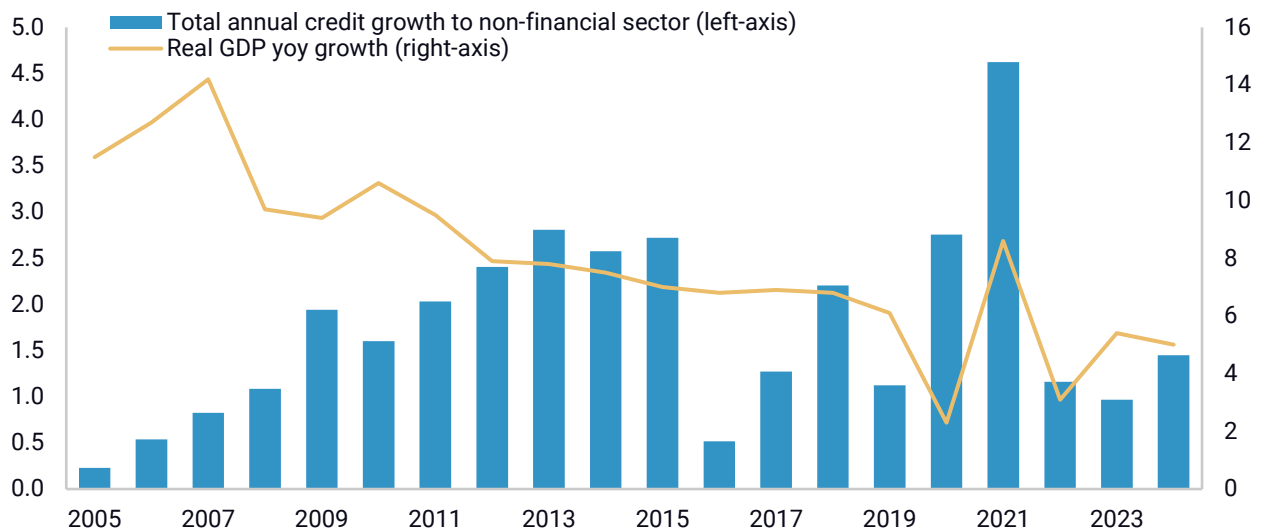
imports through securing equity stakes in upstream oil and resource extraction projects abroad.<sup>34</sup>

China also made further strides in its role in regional financial governance in the aftermath of the global financial crisis. In 2009, China signed the CMI agreement that ultimately replaced the original bilateral swap agreement network with a collective fund of \$240 billion meant to buttress potential liquidity shortfalls in the region and supplement existing international arrangements.<sup>35</sup> China's expanded international presence, especially in the Asia-Pacific region, incentivized Beijing to provide more financial resources to gird against international volatility.

### Credit boom and external asset diversification: 2009-2016

The period of 2009-2016 is marked by a rapid expansion of domestic infrastructure and property investment that sustained high GDP growth but also led to a massive buildup of domestic debt and related risk in China's financial system. In the aftermath of the global financial crisis, China enacted a large stimulus program to counter weakening global demand. The stimulus program extended China's economic boom but was only made possible by an unprecedented and unsustainable expansion of shadow banking and corporate debt (Figure 7).<sup>36</sup>

FIGURE 7  
GDP growth and total credit growth to non-financial sector in China, 2005-2024  
USD trillion and percent yoy growth



Source: Federal Reserve Bank of St. Louis, Total Credit to Private Non-Financial Sector, People's Bank of China, Total Societal Financing (TSF).

<sup>34</sup> Li, Y. & Duan, H. (2021). *China's outward foreign direct investment in the energy sector: the role of politics, institutions and natural resources*. PLOS One, 16 (7), e0254199. Available from: <https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0254199>

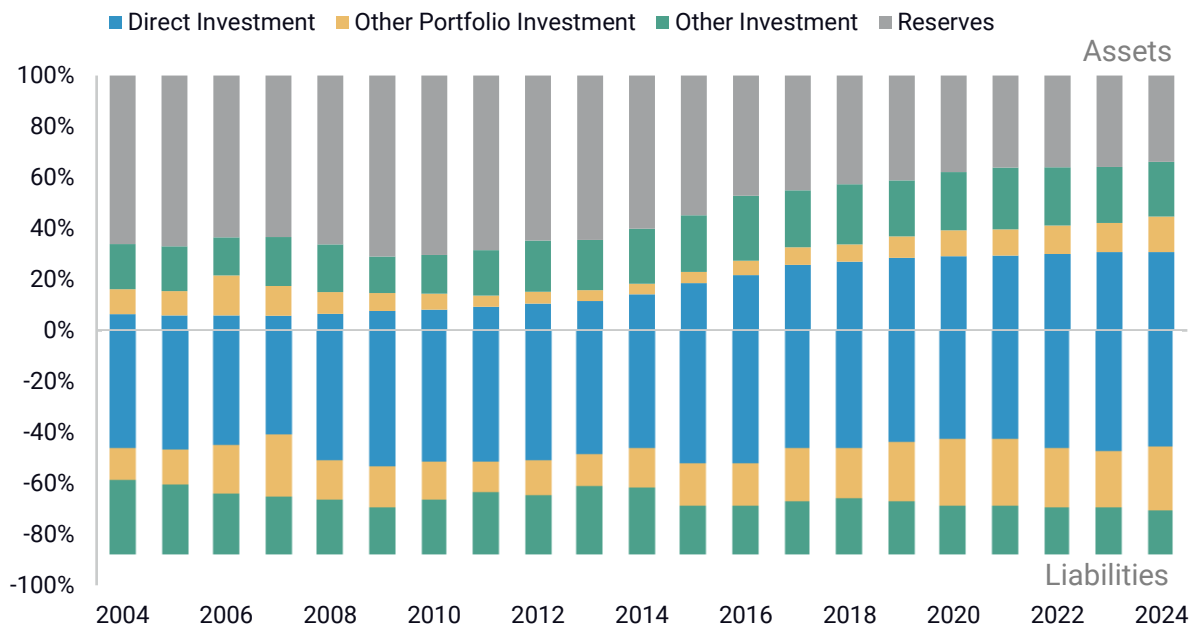
<sup>35</sup> (2018). *Chiang Mai Initiative Multilateralization*. Central Bank of the Philippines. [www.bsp.gov.ph/downloads/Publications/FAQs/CMIM.pdf](http://www.bsp.gov.ph/downloads/Publications/FAQs/CMIM.pdf).

<sup>36</sup> Chen, Z., He, Z., Liu, C. (2017). *The Financing of Local Government in China: Stimulus Loan Wanes and Shadow Banking Waxes*. NBER Working Paper No. 23598.

The efficiency of capital declined quickly, overcapacity rose, and China entered a period of deflation and slower growth in 2014 and 2015 before rebounding in 2016 due to relaxation of investment in the property sector. This period ended in a proclamation by China's leadership at the end of 2016 to limit systemic risks in the financial system through an intense deleveraging campaign to crack down on shadow banking and reduce overall debt levels in China's economy.<sup>37</sup>

China's external assets and liabilities continued to expand during this period, and the composition of China's IIP became more diverse. China's net IIP expanded further to almost \$2 trillion (Figure 8).

FIGURE 8  
**Breakdown of China's international investment position**  
 USD billion



Source: Author compilation based on data from State Administration of Foreign Exchange.

Foreign assets in China grew from \$2 trillion in 2009 to \$5 trillion in 2016. FDI continued to drive that expansion, accounting for more than 60% of total assets as of 2016. Foreign investors were attracted to China because of its resilience and high growth relative to the rest of the world. Higher interest rates than the rest of the world and expectations of a gradually appreciating currency further amplified China's attraction for global investors. In addition to FDI, Beijing also allowed growth of inward portfolio investment through sanctioned channels, for example an expansion of the QFII and yuan-denominated R-QFII quotas from \$394 billion in 2009 to \$848 billion in 2016.

As a result of the current account surplus and strong FDI inflows, China also expanded its assets abroad and diversified its asset base beyond reserves. By the early 2010s, China's reserves reached levels that exceeded all available benchmarks by a multiple, and Beijing

<sup>37</sup> Wright, L. and Rosen, D. (2018). *Credit and Credibility: Risks to China's Economic Resilience*. CSIS Freeman Chair in China Studies. [https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/181003\\_CreditandCredibility\\_final.PDF](https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/181003_CreditandCredibility_final.PDF)

was looking for ways to diversify its global asset base to increase financial returns and generate other economic and political benefits. In 2014, China liberalized administrative controls for outbound FDI by Chinese firms, which helped to boost China's global FDI assets from \$339 billion in 2010 to \$1.4 trillion in 2016. Another channel for diversifying China's global asset position was the rapid expansion of overseas lending and aid programs by Chinese policy banks. From 2010 to 2016, Chinese policy banks provided \$216 billion of loans globally and disbursed more than \$81 billion in aid.<sup>38</sup> These loans combined with trade credit boosted China's "other investment" assets from \$630 billion in 2010 to \$1.7 trillion in 2016.

During this period, China's financial statecraft shifted from limited, defensive measures to gird against outflows to a more diverse and systemic set of offensive and defensive measures. Coming from a position of relative economic strength, Beijing's priorities were to further expand and diversify its global asset base and utilize this expansion to create greater influence over recipient countries and international organizations. By the early 2010s, China's central bank was actively pushing for more aggressive external financial liberalization and in 2012 floated proposals for full capital account convertibility within a decade.<sup>39</sup> Other bureaucratic actors were also in favor of reducing barriers for capital outflows, for a variety of reasons including higher yields than US Treasury securities, the acquisition of strategic assets, increased global competitiveness of Chinese companies, and greater economic influence over other countries. This alignment of bureaucratic interests led to the liberalization of China's outbound FDI approval regime in 2014 and the decision to expand global lending by Chinese policy banks.

The expansion of state-directed outbound capital flows coincided with the announcement of bold new flagship initiatives to project China's arrival as global financier. The most important program is the BRI, which was announced in 2013 and promised to leverage Chinese capital to connect countries in Asia, Africa, and Europe to China through a series of infrastructure, energy, and transportation projects. While individual actors implementing the BRI act in their own commercial interests, the contours of the policy are orchestrated at the highest levels of China's government, creating channels of leverage that return foreign policy benefits.<sup>40</sup>

China also pushed for a more active role in global financial governance. It expanded its role at the IMF by expanding its voting shares and successfully lobbied to include the renminbi in the Special Drawing Rights (SDR) basket.<sup>41</sup> China also sought to cultivate financial power outside of existing multilateral institutions, by founding its own. Beijing spearheaded the founding of both the Asian Infrastructure Investment Bank (AIIB) and the

<sup>38</sup> Dreher, A., Fuchs, A., Parks, B.C., Strange, A. M., & Tierney, M. J. (2017). *Aid, China, and Growth: Evidence from a New Global Development Finance Dataset*. AidData Working Paper #46.

<sup>39</sup> Chen, Y. & Qian, Y. (eds.) (2014) *Capital account liberalization: Strategy, timing and roadmap*. China Finance 40 Forum Books. Beijing: Social Sciences Academy Press. ISBN 978-7509756744; International Monetary Fund (IMF). (2017) *Capital account opening and capital flow management*. In: *The IMF's Institutional View on Capital Flows: A Review*. Chapter 8. <https://www.elibrary.imf.org/display/book/9781513539942/ch08.xml>

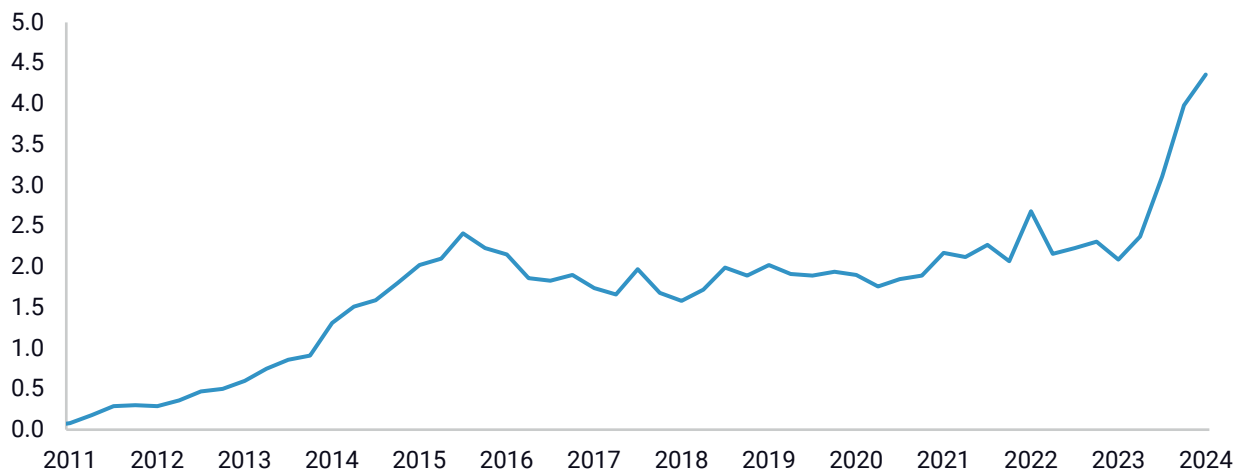
<sup>40</sup> Reilly, *Orchestration*.

<sup>41</sup> Ramacci, R. (2017). *China and the IMF - Convergence or Conflict?* The Policy Corner. [www.policycorner.org/en/2017/07/24/china-and-the-imf-convergence-or-conflict/](http://www.policycorner.org/en/2017/07/24/china-and-the-imf-convergence-or-conflict/).

New Development Bank as an alternative to existing multilateral forums and institutions such as the World Bank and Asian Development Bank.<sup>42</sup>

Finally, Beijing started to actively push for greater internationalization of the Chinese currency.<sup>43</sup> Beijing launched a cross-border CNY trade settlement in 2009, which was expanded nationwide in 2010 and ultimately catalyzed the offshore CNH market in Hong Kong. In parallel, China set up dedicated “plumbing” for CNY payments by launching the Cross-Border Interbank Payment System (CIPS) in 2015 to clear and settle cross-border RMB transactions. In 2016, Beijing secured the inclusion of the CNY in the IMF’s Special SDR basket. These steps contributed to use of the CNY in global payments going from virtually zero in 2009 to almost 3% in 2015, before dropping back to 2% in following years (Figure 9).

FIGURE 9  
**Usage of the Chinese yuan in international transactions**  
Percent of global payments



Source: Author compilation based on SWIFT data.

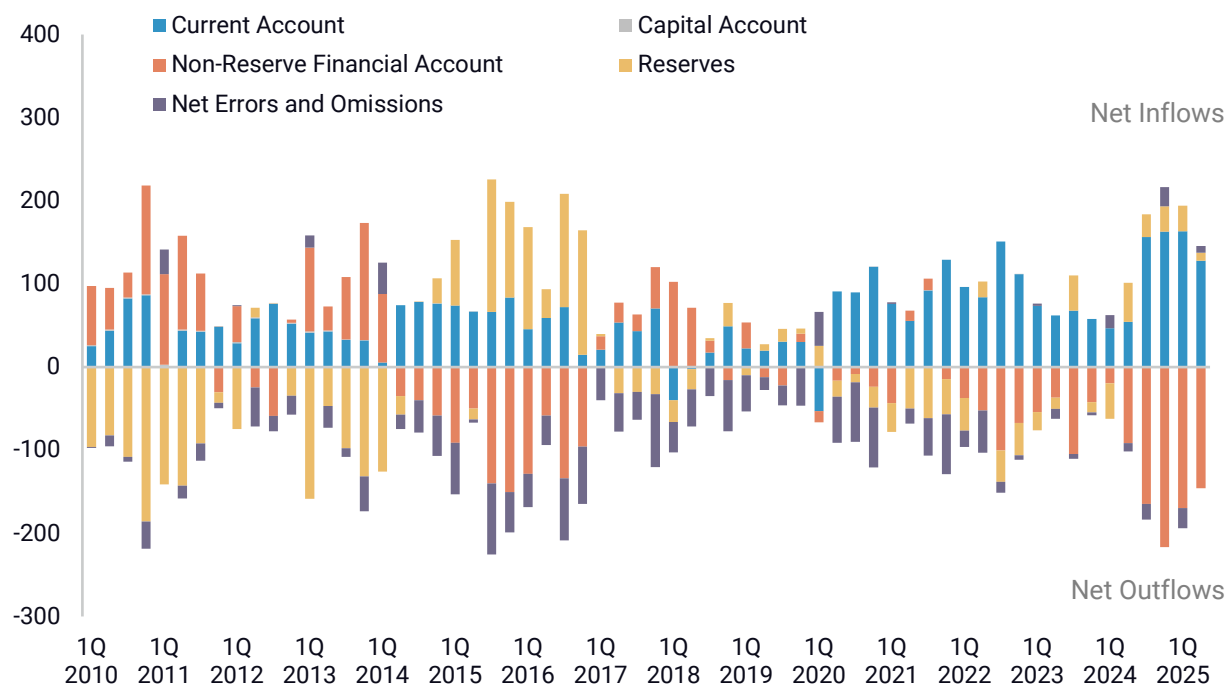
While offensive statecraft capabilities became more important than in previous periods, defensive financial statecraft remained a priority for Beijing and became paramount again toward the end of this period. China continued reforms to sustain and diversify foreign investment inflows, for example through the 2016 overhaul of its Foreign Investment Law that moved China to a negative list system, or the further expansion of quotas under the QFII program. Defensive considerations became dominant again in 2015 and 2016 as China experienced a serious balance of payments crisis. Exchange rate reforms in August 2015 fueled CNY depreciation expectations and triggered large capital outflows that exceeded current account inflows, forcing the central bank to intervene (Figure 10). China’s reserves dropped by more than \$500 billion in 2015 and another \$320 billion in 2016, dipping to roughly \$3 trillion by the end of 2016. Beijing responded by re-tightening

<sup>42</sup> Desai, R.M., and Vreeland, J. (2016). *What the New Bank of BRICS Is All About*. The Brookings Institution. [www.brookings.edu/opinions/what-the-new-bank-of-brics-is-all-about/](http://www.brookings.edu/opinions/what-the-new-bank-of-brics-is-all-about/).

<sup>43</sup> Von Beschwitz, B. (2024). *Internationalization of the Chinese renminbi: progress and outlook*. <https://www.federalreserve.gov/econres/notes/feds-notes/internationalization-of-the-chinese-renminbi-progress-and-outlook-20240830.html>.

administrative controls on outbound capital flows and scrutinizing “irrational” outbound FDI, ending a short period of relative liberalism for capital outflows and handing a win to the faction advocating for a more conservative approach to China’s financial account opening.<sup>44</sup> The re-tightening of administrative controls and investigations into some of the most prominent investors of those boom years (HNA, Anbang, or Wanda) led to a significant drop in China’s outbound FDI in following years.<sup>45</sup>

FIGURE 10  
China’s balance of payments flows by component  
USD billion, quarterly



Source: PRC SAFE.

### Growth slowdown, pandemic and de-risking: 2017-2024

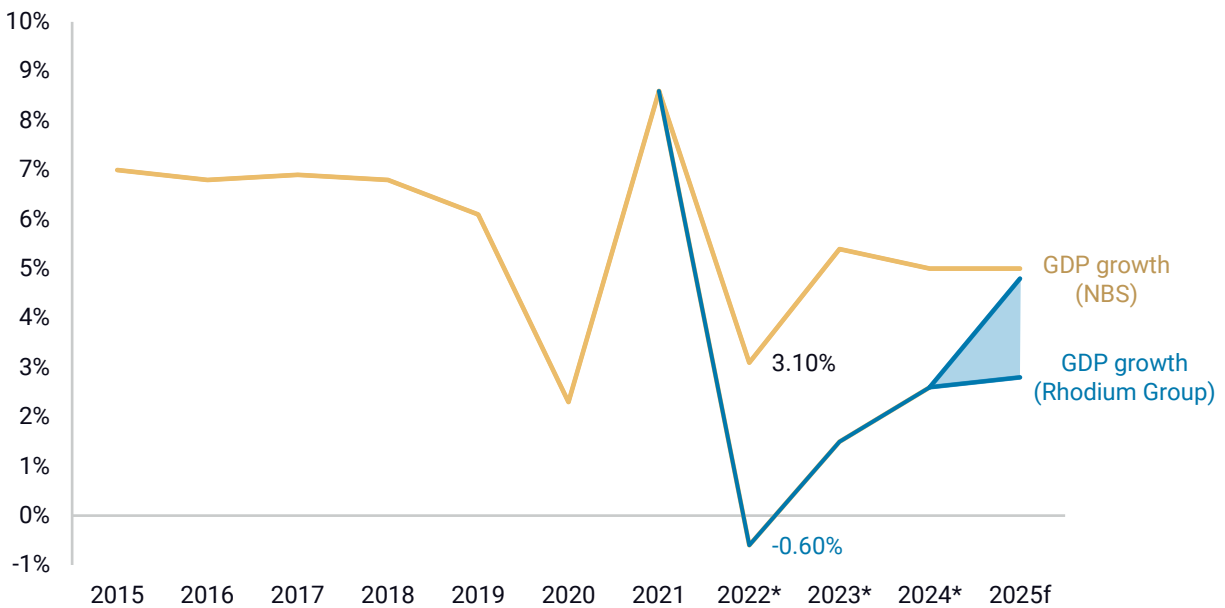
After almost a decade of debt fueled growth, China prioritized deleveraging in 2016, which led to a sharp slowdown of credit available for domestic investment. Beijing also further delayed structural reforms, cracked down on private entrepreneurs, and doubled down on policies to reduce dependence on foreign economic inputs in response to growing external frictions with the United States and other major economies. The global pandemic in 2020-2022 added to these structural headwinds. China initially was relatively resilient to pandemic disruptions but Beijing’s zero-COVID policy of 2022 amplified and lengthened disruptions and weighed heavily on the sentiment of both domestic and foreign investors. According to official figures, China’s GDP growth slowed from an average of 8.3% in the previous period to 5.4% from 2017-2024. Independent estimates suggest that these

<sup>44</sup> Yu, Y. (2017) *China’s balance of payments and capital account liberalization*. In: Fan, J. (ed.) *The Handbook of China’s Financial System*. Beijing: China Social Sciences Press, pp. 233–258.

<sup>45</sup> For a summary of OFDI patterns, see Hanemann, T., et al. (2024). *The Next Generation of China’s Outbound Investment*. <https://cbm.rhg.com/research-note/next-generation-chinas-outbound-investment>

numbers were overstated and that actual GDP growth was significantly lower in 2022 through 2024 (Figure 11).<sup>46</sup> China's share in global GDP fell for the first time in decades, and international organizations and businesses downward corrected expectations about China's future growth potential considering economic and political realities.<sup>47</sup>

FIGURE 11  
China's reported GDP growth and alternative estimates, 2015-2025  
Percent



Source: NBS, Rhodium Group.

China's external assets and liabilities continued to expand after 2016, but the decision to prioritize stability and control slowed China's global financial integration relative to the baseline established in the previous decade. China's combined external financial assets and liabilities reached \$17 trillion in 2024, far below the level of global financial integration that researchers had projected based on the central bank's 2012 proposal for full capital account convertibility by 2022. The ratio of China's external assets and liabilities to GDP peaked in the period of 2007-2014 at an average of 105% and dropped to 91% by 2024 (Figure 12). China's net IIP expanded further to \$3.3 trillion, reflecting net outflows through the financial account to balance China's widening current account surplus.

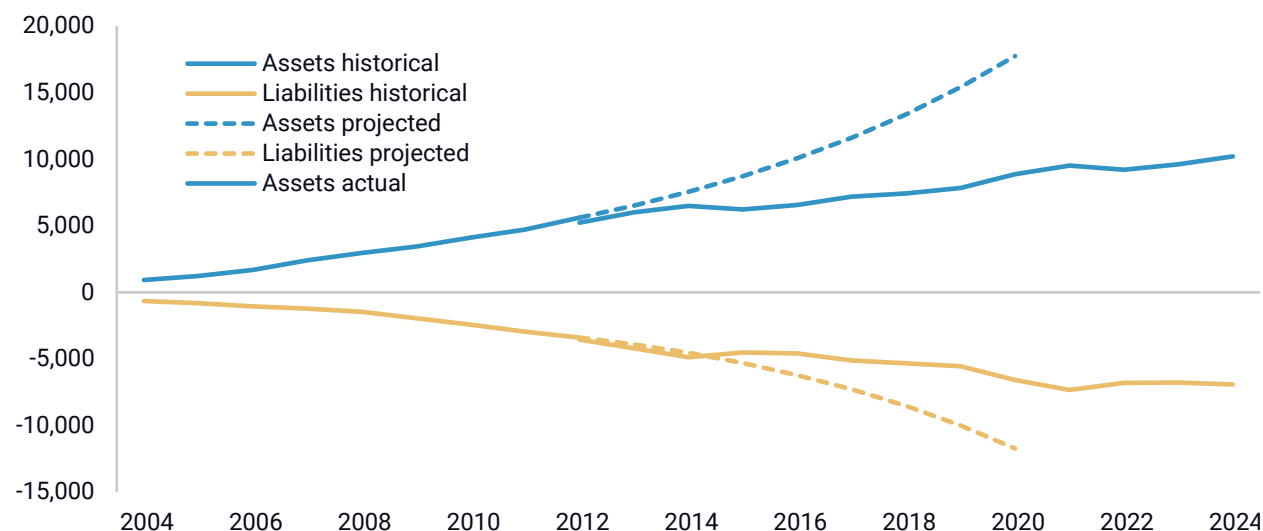
<sup>46</sup> Rosen, D.H. & Smith, J. (2025) *China's economic performance: New numbers, same overstatement*. Atlantic Council Econographics. <https://www.atlanticcouncil.org/blogs/econographics/sinographs/chinas-economic-performance-new-numbers-same-overstatement/>; Wright, L. (2025) *The strategic logic of China's economic data*. Rhodium Group. <https://rhg.com/research/the-strategic-logic-of-chinas-economic-data/>

<sup>47</sup> International Monetary Fund (IMF). (2024) *World Economic Outlook: Navigating Divergent Recoveries*. Washington, D.C.: International Monetary Fund. <https://www.imf.org/en/Publications/WEO>

FIGURE 12

**Projections of China's IIP under open capital account in 2012 vs. actual trajectory**

USD billion



Source: Author compilation based on actual IIP figures from PRC SAFE and 2012 projections based on: Dong He, Lillian Cheung, Wenlang Zhang, and Tommy Wu, "How would Capital Account Liberalisation Affect China's Capital Flows and the Renminbi Real Exchange Rates?" Hong Kong Monetary Authority, April 2012.

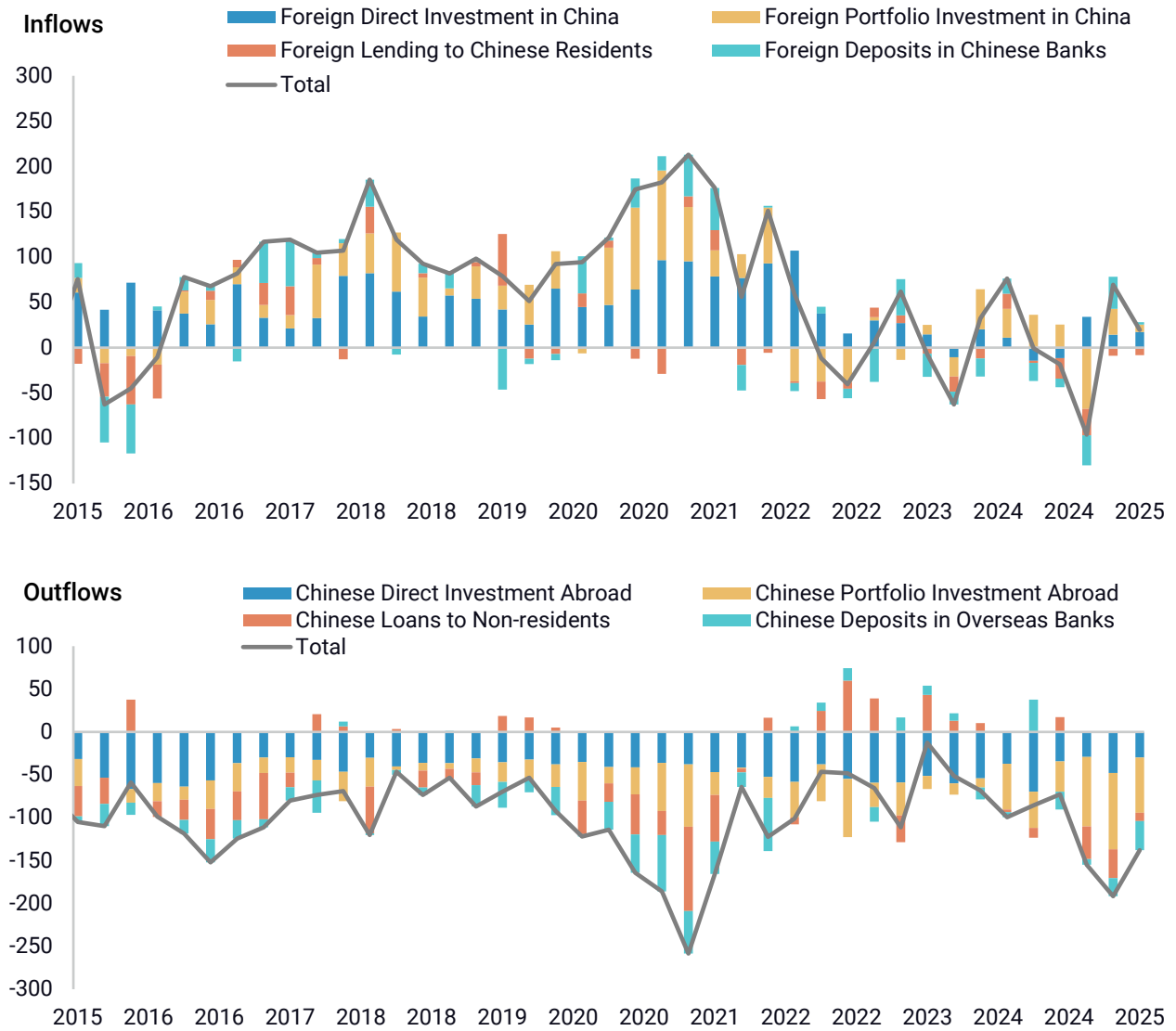
Foreign assets in China grew from \$4.6 trillion in 2016 to \$6.9 trillion in 2024. FDI inflows rebounded and reached new records during the pandemic as more resilient GDP growth and higher interest rates made China an attractive place to store capital amidst a global low-interest rate environment. One of the main new developments during this period was a significant inflow of foreign portfolio investment to China that was catalyzed by Beijing's decision to open additional channels for short-term capital inflows, mostly the northbound stock connect scheme that allows Hong Kong investors to invest in onshore securities in Shanghai and Shenzhen.<sup>48</sup> Both FDI and portfolio inflows dropped significantly after 2022 as the global macro environment normalized, investors moved shorter-term capital out of the country, and companies started to slash FDI in response to sluggish growth and mounting concerns about the long-term growth outlook (Figure 13).

China's assets abroad expanded from \$6.6 trillion in 2016 to \$10.2 trillion in 2024. Compared to the previous period, the state re-asserted control over China's external balance sheet. Reserves recovered to more than \$3.5 trillion. Outbound FDI assets doubled to more than \$3 trillion in 2024 but most of this increase reflected state-owned firms keeping earnings and cash in offshore accounts rather than real economy investment by private firms.<sup>49</sup> China's portfolio investment assets quadrupled to \$1.4 trillion but Beijing maintained a tight grip around these flows through quotas and other channels such as ownership control of financial intermediaries. Lending and other activity captured in the Other Investment category stayed roughly flat at around \$2.2 trillion.

<sup>48</sup> Li X. (2024) 'Stock Connect Injects \$690b into Mainland, HK Markets amid 10-Year Milestone', *China Daily Hong Kong* <https://www.chinadailyhk.com/hk/article/597561>.

<sup>49</sup> Hanemann, T., et al. (2024). *The Next Generation of China's Outbound Investment*. <https://cbm.rhg.com/research-note/next-generation-chinas-outbound-investment>

FIGURE 13  
**China's financial account inflows and outflows, Q2 2015-Q2 2025**  
 Quarterly flows, USD billion



Source: PBOC/SAFE, author compilation.

China's financial statecraft remained focused on defensive measures. The period of heavy capital outflows in 2015/2016 underscored the risks associated with loosening controls over capital outflows and tipped the scales in Beijing toward a conservative approach that maintained government control over outflows through various formal and informal levers. The crackdown on outbound FDI and investigations into major FDI investors was the first step, causing a sharp fall in Chinese FDI globally. Outbound lending by Chinese policy banks peaked in 2016 and dropped sharply as Beijing became concerned about outflows and unsustainable debt levels negatively impacted China's reputation in developing

countries.<sup>50</sup> Beijing decided to allow more portfolio investment outflows through the southbound stock connect scheme, but it retained control over the level of outflows through investor criteria, daily quotas, and other levers.

In addition to regaining control over outflows, Beijing also focused on shoring up FDI and portfolio investment inflows. China scrapped the QFII and RQFII programs and launched several stock and bond connect programs to sustain and broaden the inflow of foreign capital into onshore bond and equity markets. Beijing also successfully lobbied global financial firms to include Chinese equities and bonds into major global equity and bond indices, despite China not meeting several important governance and capital mobility requirements.<sup>51</sup> In 2023, the State Council announced new measures to attract foreign investment and counter the sharp slowdown in FDI.<sup>52</sup>

Another priority for Beijing was to counter financial sanctions and push back against the expanding web of US and allied measures targeting Chinese firms, officials, and technologies. Since 2021, China has built a toolkit with both defensive and offensive elements: the Anti-Foreign Sanctions Law and MOFCOM blocking rules to discourage compliance with extraterritorial sanctions; an Unreliable Entity List and ad-hoc countersanctions on foreign individuals and institutions; and selective export controls on critical inputs like gallium or graphite to raise the cost of restricting China.<sup>53</sup>

The international use of the CNY was largely flat from 2016 to 2022, but Beijing continued to expand CIPS as a cross-border CNY clearing rail. It also expanded bilateral swap lines with emerging economies including Argentina. After 2022, China started to promote CNY settlement in sanctioned corridors (most notably Russia), leading to growing adoption in energy trading that pushed the share of the CNY in global payments to over 4% in 2024. Chinese policy banks also started to promote CNY-denominated lending and the conversion of existing floating rate USD loans to CNY denominated debt.<sup>54</sup>

In terms of offensive financial statecraft, Beijing increasingly tried to leverage the promise of Chinese outbound greenfield FDI to reach political goals. One example is China's strategy to soften the EU's anti-subsidy duties on Chinese EVs: as Brussels moved to impose five-year tariffs, Chinese automakers accelerated localization pledges -BYD announced a passenger-vehicle plant in Szeged, Hungary, while CATL committed to build a battery plant in Debrecen, and Chery promised to revive an ex-Nissan plant in Spain. In the following vote, Hungary opposed EV tariffs against China while Spain abstained.<sup>55</sup>

<sup>50</sup> Ray, R. (2023). *Small is Beautiful: A New Era in China's Overseas Development Finance?* [https://www.bu.edu/gdp/files/2023/01/GCI\\_PB\\_017\\_CODF\\_EN\\_FIN.pdf](https://www.bu.edu/gdp/files/2023/01/GCI_PB_017_CODF_EN_FIN.pdf).

<sup>51</sup> Schipke, A., Rodlauer, M. and Zhang, L. (2019) *China's Bond Market: Characteristics, Prospects, and Reforms*. International Monetary Fund. <https://www.elibrary.imf.org/display/book/9781484372142/ch001.pdf>

<sup>52</sup> Smith, D. & Benham, F. (2019) *China: Market developments and the impact of MSCI China A shares inclusion*. Meketa Investment Group Whitepaper. <https://meketa.com/wp-content/uploads/2012/10/China-A-Shares-FINAL.pdf>

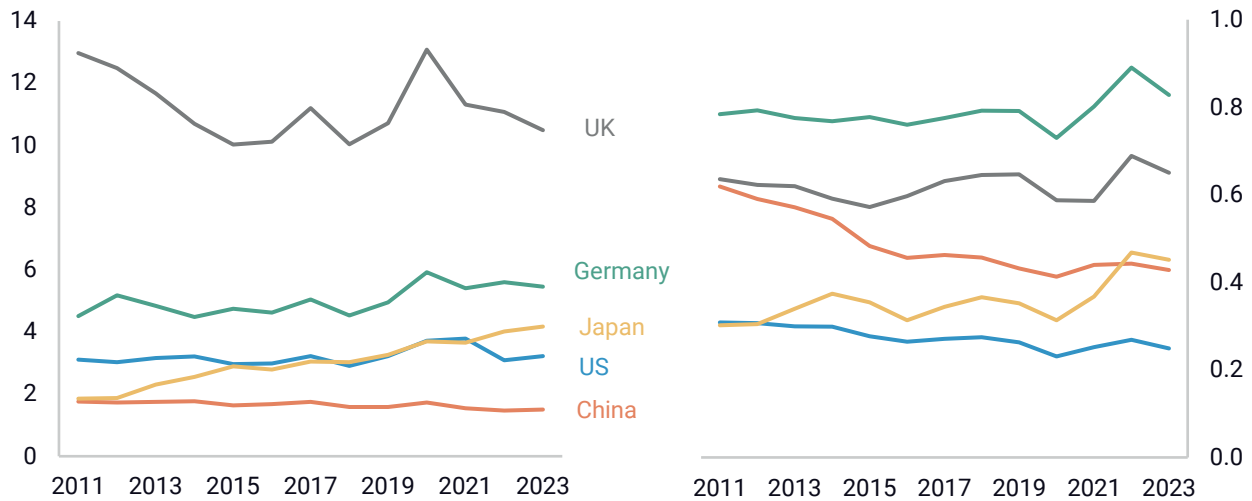
<sup>53</sup> Jiaying, X. (2025) *China's New Sanctions Policy Characteristics, Rationales and Policy Implications*. RSIS. [https://www.rsis.edu.sg/wp-content/uploads/2025/05/PR\\_Chinas-New-Sanctions-Policy-Characteristics-Rationales-and-Policy-Implications.pdf](https://www.rsis.edu.sg/wp-content/uploads/2025/05/PR_Chinas-New-Sanctions-Policy-Characteristics-Rationales-and-Policy-Implications.pdf)

<sup>54</sup> Sandlund, W. and Ko, H. (2025). *Overseas renminbi lending surges as China steps up campaign to de-dollarise*. <https://www.ft.com/content/4577100f-8b71-4647-8e7e-fead115d9552>.

<sup>55</sup> RFI. (2024) *EU votes to impose tough new tariffs on Chinese electric vehicles*. <https://www.rfi.fr/en/international-news/20241004-eu-states-greenlight-extra-tariffs-on-evs-from-china>

Overall, China's use of financial statecraft tools has increased in this period, but it continues to rely more heavily on traditional economic statecraft tools. In comparison to high-income economies, China's relative weight in the global economy is much more heavily focused on trade rather than financial flows (Figure 14), which means that it has greater relative leverage to deploy trade tools such as import bans or export restrictions. Financial statecraft on the other hand is difficult to implement, potentially costly and often not effective, which is why Beijing continues to rely on traditional tools rather than financial statecraft.<sup>56</sup>

**FIGURE 14**  
**Financial vs. trade globalization: China vs. other economies**  
 Ratio of financial assets and liabilities to GDP (left) vs. exports and imports to GDP (right)



Source: World Bank; Milesi-Ferretti, Gian Maria, 2024, "The External Wealth of Nations Database," The Brookings Institution (based on Lane, Philip R. and Gian Maria Milesi-Ferretti, 2018, "The External Wealth of Nations Revisited: International Financial Integration in the Aftermath of the Global Financial Crisis," IMF Economic Review 66, 189-222.

<sup>56</sup> Wright, L., Kratz, A., Mingey, M. & Vest, C. (2024) *Retaliation and resilience: China's economic statecraft in a Taiwan crisis*. Rhodium Group & Atlantic Council GeoEconomics Center. <https://www.atlanticcouncil.org/in-depth-research-reports/report/retaliation-and-resilience-chinas-economic-statecraft-in-a-taiwan-crisis/>

### 3. Three scenarios for China's growth and external financial position through 2030

China's economy has already slowed significantly compared to previous two decades, and its GDP growth trajectory through 2030 faces serious structural challenges. Credit and property markets are in distress, the population growth rate is projected to fall, the external environment is deteriorating, and domestic consumption is weak.

In this section, the author formulates three scenarios for China's economic development through 2030, describe China's resulting external position and analyze its financial statecraft capabilities and preferences under each scenario. The scenarios stem from China's possible approaches to domestic economic policy, ranging from a return to market reform to state-driven retrenchment:

- **Policy stagnation:** China continues with a state-dominated economic model that prioritizes national and economic security, ensuring control of the most powerful financial actors.
- **Half measures:** China takes half measures toward economic reform, adopting piecemeal reforms in specific areas while keeping a strong role for the state in the economy overall.
- **Reform and rebalancing:** China embraces a more ambitious and market-oriented reform strategy that addresses current structural problems.

From these assumptions, China's GDP growth and current account balance is projected in each scenario from 2025 to 2030, which in turn informs projections of China's IIP. The goal is not to precisely model out future financial flows, but rather to sketch out potential trajectories for China's economy depending on policy choices and analyze the resulting external financial configurations and financial statecraft priorities. The Methodology Appendix provides a detailed description of the methodology and assumptions for each scenario.

#### Scenario 1: Policy stagnation

Scenario 1 represents the most pessimistic scenario. It assumes stagnation of economic reforms and thus the most pronounced medium-term downturn. Compared to the other scenarios, it also embeds alternative GDP estimates for 2022-24, which place the level of output by 2024 around 8-9% below official figures.<sup>57</sup>

#### DOMESTIC GROWTH AND CURRENT ACCOUNT

China's economy experiences cyclical improvement in 2025, as the property market and infrastructure investment begin to recover after bottoming out, manufacturing investment remains strong, consumer spending picks up, and monetary and fiscal policy become more accommodative. GDP growth jumps to 3.8%. However, Beijing broadly fails to implement the fiscal reforms required to boost household consumption and arrest the

<sup>57</sup> Rosen, D., et al. (2024). *After the Fall: China's Economy in 2025*. Rhodium Group. <https://rhg.com/research/after-the-fall-chinas-economy-in-2025/>.

longer-term structural slowdown.<sup>58</sup> Weak government revenues impose greater fiscal constraints, resulting in weaker external lending capacity and a gradual decline of government consumption as a proportion of GDP. Economic growth drops to 2.5% in 2030 and averages just 3.1% in the period of 2025-2030 (Figure 15).

TABLE 3

**Scenario 1 policy assumptions**

<b>Area</b>	<b>Key assumptions</b>
<b>Credit system</b>	<ul style="list-style-type: none"> <li>▪ No changes to debt management system and implicit guarantees continue</li> <li>▪ Riskier loans persist and credit conditions continue to deteriorate</li> <li>▪ System remains reliant on investment rather than credit as banks are not forced to change</li> <li>▪ Credit ratings remain low quality</li> </ul>
<b>Bailouts</b>	<ul style="list-style-type: none"> <li>▪ Bailouts continue to be provided to SOEs and LGFVs via PBOC refinancing and new quantitative easing</li> <li>▪ LGFVs and SOEs are not permitted to fail and instead are bailed out by the central government, preventing a reform among credit-rating institutions and a continued inability to distinguish sound investments from poor ones.</li> </ul>
<b>Capital controls</b>	<ul style="list-style-type: none"> <li>▪ Capital controls are maintained to offset outflow pressure from low interest rates</li> <li>▪ Attempts to balance inflows with the increased outflow pressure fail. The banking system is unable to be profitable while reducing interest rates enough to manage China's bad debt and reduce financial system pressure.</li> </ul>
<b>Interest rates</b>	<ul style="list-style-type: none"> <li>▪ State heavily influences interest rates (low to stimulate credit, high to preserve banking sector), tending toward lower rates</li> <li>▪ Central bank balance sheet further expands to maintain financial stability, reducing interest rates</li> <li>▪ Hard for the market and banks to distinguish between good and bad (non-performing) loans</li> </ul>
<b>Foreign exchange</b>	<ul style="list-style-type: none"> <li>▪ Heavy intervention from state to appreciate or depreciate within band to either promote exports or mitigate outflow pressure</li> <li>▪ Higher pressure from inflow/outflow imbalance</li> <li>▪ Market reaction in defending the exchange rate is faster under an OECD backlash</li> </ul>
<b>Market access</b>	<ul style="list-style-type: none"> <li>▪ Market access reforms are not implemented</li> <li>▪ Market access for foreign companies remains unequal due to formal requirements and informal hurdles</li> </ul>

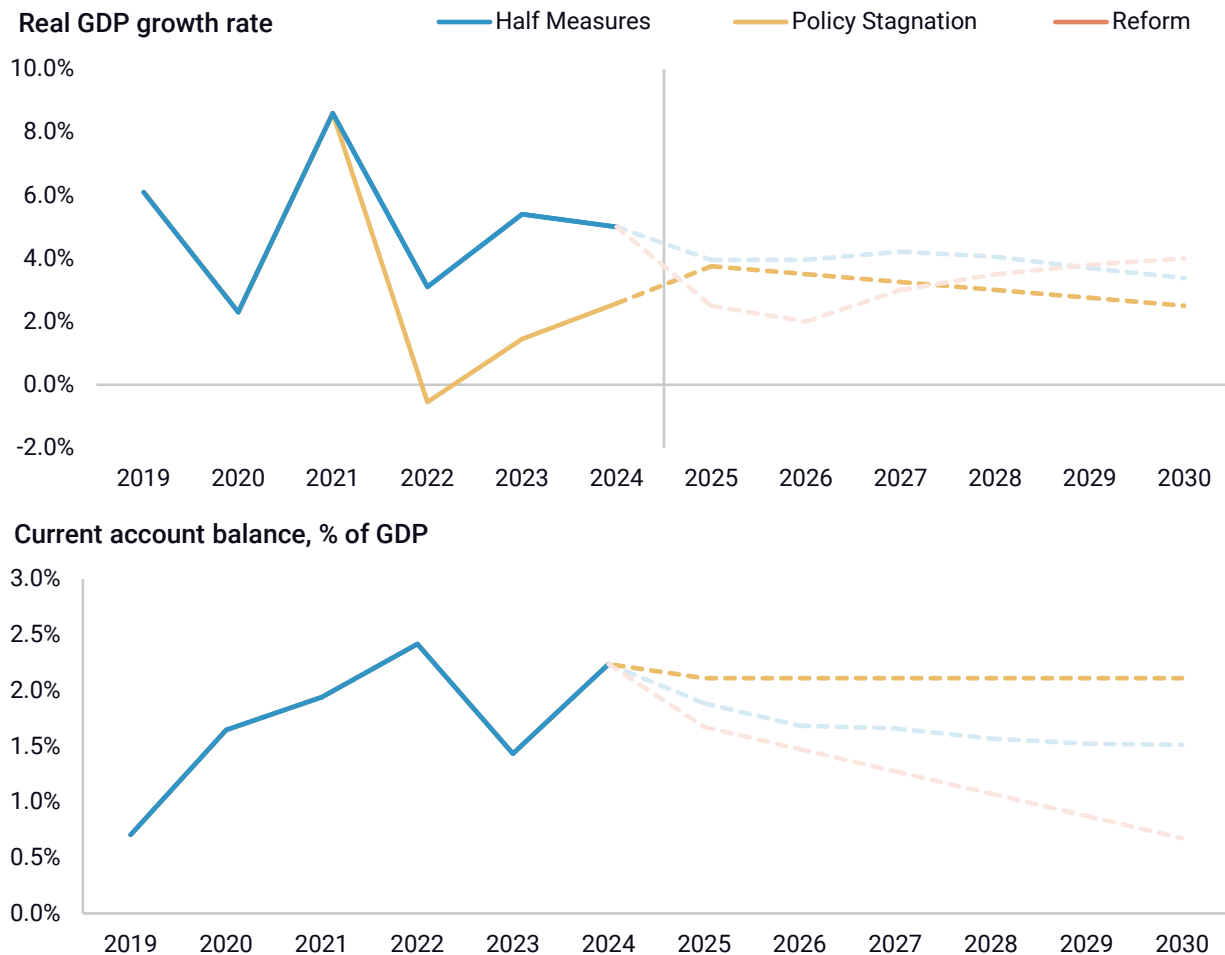
<sup>58</sup> See Wright, L., et al. (2024). *No Quick Fixes: China's Long-term Consumption Growth*. Rhodium Group. <https://rhg.com/research/no-quick-fixes-chinas-long-term-consumption-growth/>.

- External affairs**
- Serious China derisking/decoupling in advanced economies across sectors, including non-sensitive sectors
  - Rising external trade surpluses reinforce trend toward derisking and triggers rising trade barriers in emerging markets / developing countries

Source: Author

China's current account balance remains high throughout the projection horizon at 2% of GDP, the highest surplus of the three scenarios, implying expanding trade surpluses and inability to resolve domestic imbalances resulting in industrial overcapacity. China's external trade surplus further increases from current levels, fueling trade tensions with high-income and emerging economies alike (Figure 15).

**FIGURE 15**  
**Scenarios for China's GDP growth and current account balance through 2030**  
 Annual percent growth (top), index (bottom)



Source: National Bureau of Statistics, IMF World Economic Outlook database, author.

**EXTERNAL FINANCIAL POSITION**

The ballooning current account surplus under this scenario implies an increase of China's **net IIP** from \$3.3 trillion in 2024 to \$5.9 trillion by 2030 (Figure 16). However, the overall

level of China's external financial flows only grows modestly since Beijing is forced to maintain capital controls to prevent larger scale outflows by firms and households in light of an uncertain domestic economic outlook. The **degree of China's global financial integration**—as measured by the ratio of total assets and liabilities and GDP—continues to drop from 0.91 in 2024 to 0.85 by 2030 (compared to a peak of 1.1 in 2010).

**Assets** grow similar to the pace of the past 5 years (6%) and much of it is dominated by state investment vehicles, SOEs and other government-controlled entities as scrutiny on private sector and household outflows remains elevated. **Liabilities** grow less than the baseline in past 5 years (3.7%) as confidence in the Chinese economy continues to deteriorate and private investment from abroad (FDI and portfolio investment) remains subdued.

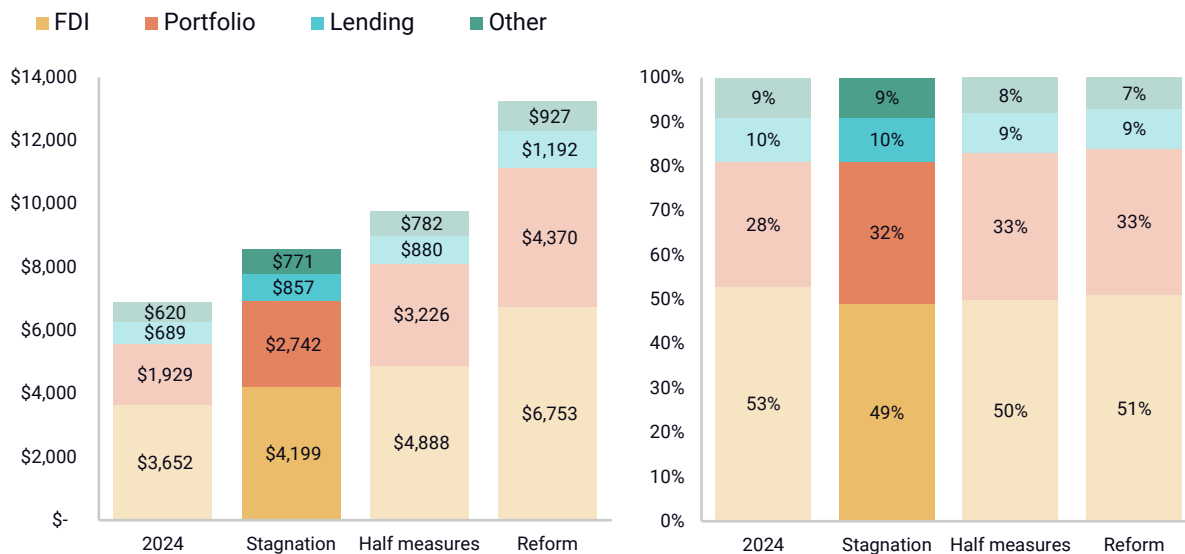
FIGURE 16  
**China's external assets and liabilities in 2030 under various scenarios**  
 USD billion



Source: Author projections. See Appendix for more details.

The **composition of China's external liabilities** remains similar to the baseline of previous five years but will see a relative shift toward shorter-term portfolio investment (Figure 17). FDI remains the dominant foreign asset position in China, but new investment continues to decline (as already evident in 2023/2024) as the growth outlook remains gloomy and political considerations stand in the way of opening additional sectors (especially services) to foreign competition. Existing investors keep investing to sustain their asset base and defend their market share, but new investment remains at lower levels than in previous decades. In the absence of FDI inflows, Beijing is forced to further open its channels for foreign portfolio investment inflows. Global asset managers use these opportunities for passive investment but slower growth and remaining concerns about Chinese capital controls, geopolitical tensions, and legal and reputational risk from investing in problematic Chinese firms limits the magnitude of inflows compared to a reform scenario. The relative share of lending and other investment in China's total assets remains similar to the 2024 baseline.

FIGURE 17  
**China's external liabilities in 2030 under various scenarios**  
 USD billion

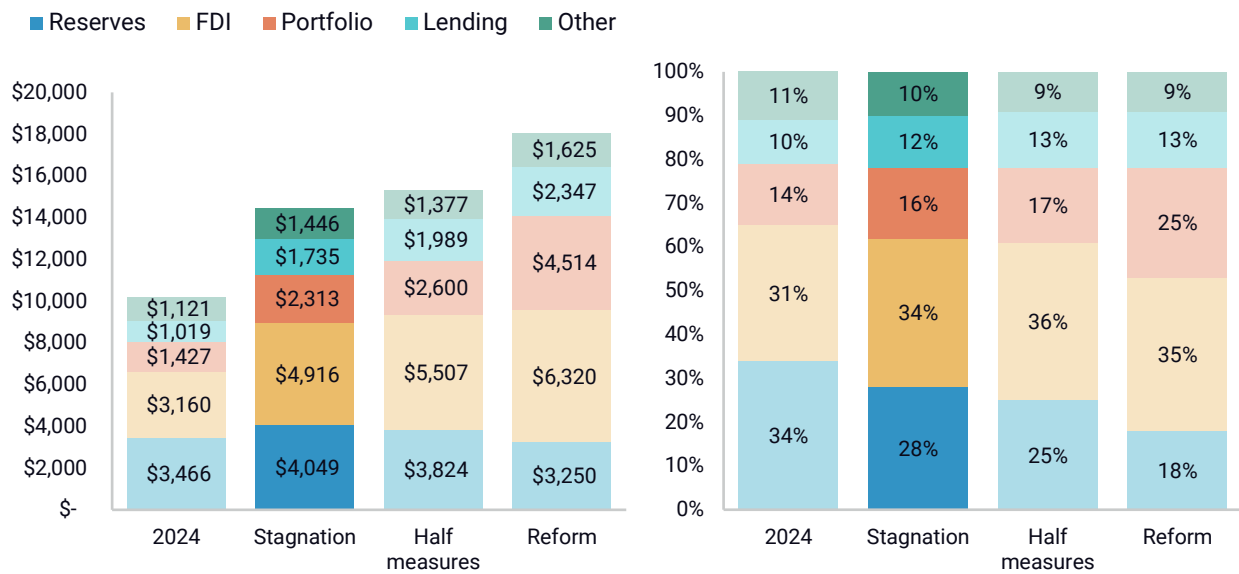


Source: Author projections. See Appendix for more details.

The **composition of China's external assets** also remain similar to 2024 (Figure 18). Official **reserves** only modestly grow and decline in relative terms, but the extent of "hidden reserves" (pools of foreign currency assets controlled by state-owned banks and other government-controlled entities) further increase. Outbound **FDI** continues to grow, though not as much as under the other scenarios, and the role of private firms remains weaker. OFDI is overweight toward sectors and activities that connect to national development priorities including reducing potential supply bottlenecks and dependencies (mostly resources/materials), acquiring foreign technology to reduce vulnerabilities, and sustaining access to foreign markets to absorb Chinese overcapacity. Large private or mixed ownership enterprises such as CATL, BYD, or Huawei are absorbed into a universe of "trusted investors" if they are aligned with national economic priorities and have proven their ability to execute overseas investments. **Portfolio investment** outflows remain

controlled by stock and bond connect schemes routing capital to Hong Kong markets. Global flows remain largely constrained to state-owned commercial banks, policy banks, sovereign investment vehicles, and other entities the government can exert control over. Capital controls remain firmly in place with strict limits on outbound financial investment by households. China continues to have high capacity to deploy financial investment in politically opportune investments (specific political funds) and vehicles that absorb large amounts of capital without transparency (private equity funds). **Lending** by policy banks rebounds but on a smaller scale and bound by improved risk management mechanisms and clear strategic and political goals.

FIGURE 18  
**Growth of China's external assets in 2030 under various scenarios**  
 USD billion



Source: Author projections. See Appendix for more details.

### FINANCIAL STATECRAFT IMPLICATIONS

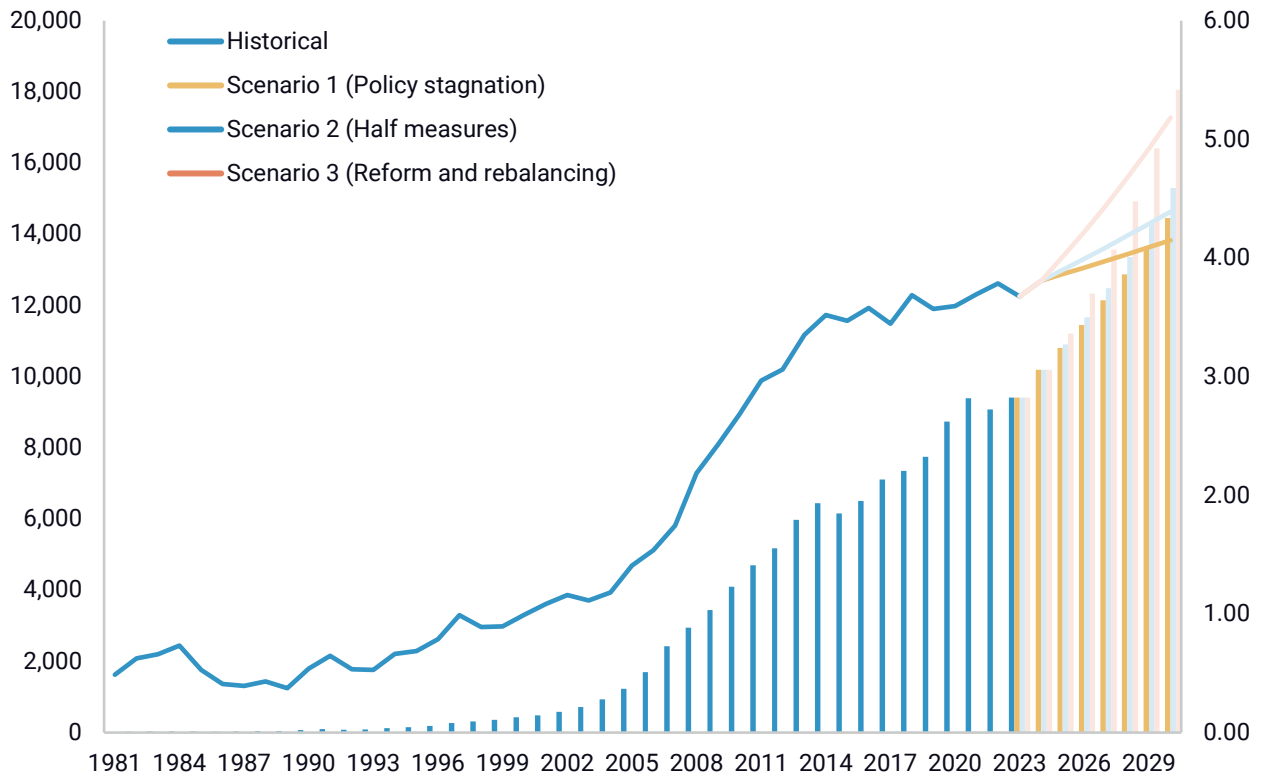
In this scenario, China's **latent economic statecraft capacity** further declines. China's falling share in global GDP and its ballooning trade surplus dampens China's appeal as an economic and financial partner relative to the historical baseline. The discrepancy between trade and external financial liberalization persists, making Beijing likely to continue leveraging traditional economic statecraft approaches rather than more expansive and complex financial statecraft strategies.

Under this scenario, China increases its external financial assets by \$4.3 trillion, which would mean that its **relative share in total global financial assets** modestly increases from 3.7% to 4.2% (Figure 19). However, China's external financial assets still grow by an average of \$0.7 trillion per year through 2030, putting China in the top 10 of global capital exporters.<sup>59</sup> China also further expands its position as the world's largest net creditor with

<sup>59</sup> Taking 2024 actual flows and extrapolating with the 2015-2024 average growth rates.

a projected NIIP of \$5.9 trillion by 2030. Thus, while China's relative share in global financial assets does not increase much, the absolute size of its external financial assets and firepower still make China an attractive proposition for individual economies looking for foreign capital.

FIGURE 19  
**China's share in global external financial assets by 2030**  
 USD billion (bar, left) and percent (line, right)

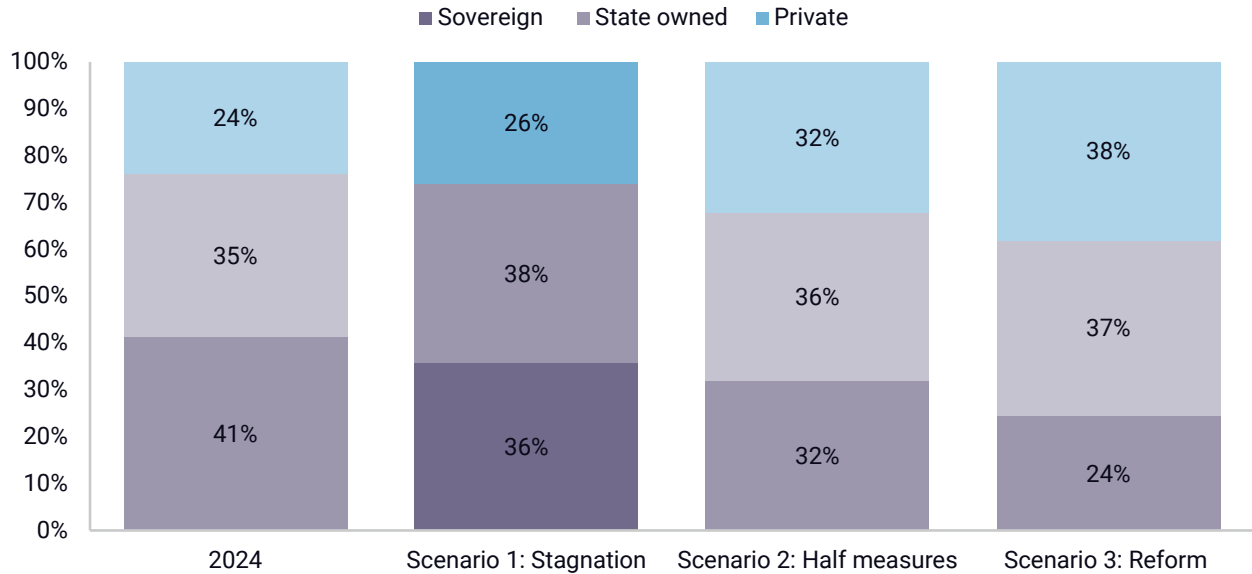


Source: Author projections. Global asset growth extrapolated based on 2010-2024 annual average growth rate (4.5%). See Appendix for more details.

Under this scenario, Beijing retains significant **control of China's external assets**.<sup>60</sup> Growth of portfolio investment and FDI contributes to a small relative shift toward private sector entities, but the government still directly controls more than 70% of China's overseas assets through sovereign and state-owned entities (Figure 20). In addition to direct ownership control, Beijing is still able to exert heavy influence over nominally private investments through control of portfolio investment schemes and administrative approvals and FX restrictions for outbound FDI of Chinese companies. This means that this scenario does not see a significant expansion or diversification of China's financial statecraft power brokers. The development and growth of Chinese multinational enterprises produces a new group of influential actors, but otherwise China's external financial flows continues to be dominated by the same players as before: the central bank, sovereign wealth funds, policy banks, and state-owned enterprises.

<sup>60</sup> For a detailed explanation of ownership estimates, please see Methodology Appendix.

FIGURE 20  
**China's external assets by ownership in 2030 by scenario**  
 Percent of total



Source: PRC SAFE, author projections

In terms of **financial statecraft priorities**, China's focus remains on defensive financial statecraft—measures that stabilize the domestic economy and reduce external shocks that would threaten economic and political stability. Those priorities include reducing China's exposure to uncontrollable short-term capital that could cause sudden swings and capital outflows, reducing dependencies and vulnerability of technology firms and other strategic entities to foreign capital, and maintaining exchange rate controls. China likely continues to prioritize bilateral engagement with partner economies supplemented by high-level development finance initiatives like BRI. Under this scenario it is likely that the role of multilateral financial organizations continues to decline as the world is moving toward greater fragmentation, resulting in greater relevance of bilateral and ad hoc alliances. China continues to build out the infrastructure for CNY internationalization, including digital currency frameworks, but more aggressive expansion of global CNY use is hampered by Beijing's refusal to move toward capital account convertibility. Beijing also continues to increase influence in international organizations and build out shadow organizations that serve its interests. Finally, under this scenario China likely reduces the transparency and accuracy of its economic and financial data for the sake of political messaging.

### Scenario 2: Half measures

Scenario 2 represents the baseline scenario. It accepts China's official GDP statistics as a historical baseline and leans heavily on the latest IMF numbers for China's medium-term outlook, which project a less pronounced slowdown than the policy stagnation scenario.

## DOMESTIC GROWTH AND CURRENT ACCOUNT

The IMF's scenario for China's GDP growth to 2030 is taken from the most recent World Economic Outlook (WEO), with the scenario narrative adapted from the 2024 Article IV assessment for China<sup>61</sup> as well as from a recent working paper reevaluating China's long-run growth potential.<sup>62</sup> The April 2025 WEO forecast envisions a gradual growth slowdown from 4.0% in 2025 to 3.4% in 2030.<sup>63</sup>

The key driver of this slowdown is rapidly diminishing returns of China's investment-led growth model. Property investment, which has contracted sharply since 2021, stabilizes at a lower level as fundamental demand for new housing falls. The productivity of infrastructure investment continues to decline. The drag from the property sector is only partially offset by expanding investment in new energy technology. Investment and consumption grow at similar rates going forward, with consumption slightly outpacing investment from 2027 onward, resulting in minimal adjustments to the composition of GDP. Meanwhile, China faces demographic headwinds including declining fertility and a shrinking working-age population, which are counterbalanced by continued growth of human capital a phased-in retirement. Total factor productivity becomes an increasingly important source of potential growth but also faces a gradual slowdown. Table 4 expands on the IMF scenario and elaborates on the policy assumptions underlying this "half measures" scenario.

TABLE 4  
Policy assumptions: Scenario 2 (Half measures)

Area	Key Assumptions
<b>Credit system</b>	<ul style="list-style-type: none"> <li>▪ Beijing succeeds in regulating highly risky financial instruments and partial deleveraging but backs off more serious reforms for the sake of short-term growth</li> <li>▪ Expectation that Beijing will intervene in the event of a period of financial instability is maintained.</li> </ul>
<b>Bailouts</b>	<ul style="list-style-type: none"> <li>▪ Some smaller financial institutions and corporations are allowed to fail, cleaning up some credit risk, but the government continues to backstop LGFVs and SOEs</li> <li>▪ Central government continues to support LGFVs and local governments receive bailouts in spite of inefficiencies</li> <li>▪ State-owned sector debt does not balloon; defaults are uncommon and guarantees are still extended to SOEs</li> </ul>

<sup>61</sup> IMF. (2024). *People's Republic of China: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China.*

<https://www.imf.org/en/Publications/CR/Issues/2024/08/01/Peoples-Republic-of-China-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-552803>.

<sup>62</sup> Muir, D.V., Novta, N., and Oeking, A. (2024). *China's Path to Sustainable and Balanced Growth.*

<https://www.elibrary.imf.org/view/journals/001/2024/238/article-A001-en.xml>.

<sup>63</sup> IMF. (2025). *World Economic Outlook: A Critical Juncture Amid Policy Shifts.*

<https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025>.

<b>Capital controls</b>	<ul style="list-style-type: none"> <li>▪ Fiscal and financial transfers and subsidies keep some (though not all) state-owned firms, harming efficiency</li> <li>▪ Capital controls kept in place with little relaxation</li> <li>▪ Controls are tightened quickly in the event of any financial distress, which deters investors and discourages deeper financial integration between China and the outside</li> </ul>
<b>Interest Rates</b>	<ul style="list-style-type: none"> <li>▪ Interest rates kept are generally kept low to facilitate credit, which hurts banking sector profitability and keeps credit from being channeled to private sector</li> <li>▪ Low interest rates lead to small and local bank failures/issues</li> <li>▪ Foreign investors less enticed to purchase Chinese assets due to low interest rates</li> </ul>
<b>Foreign exchange</b>	<ul style="list-style-type: none"> <li>▪ Exchange rates kept at status quo, with PBOC intervening on occasion to avoid rapid and uncontrolled depreciation</li> <li>▪ Low interest rates put downward pressure on RMB, prompting China to run down some of its foreign currency reserves to defend</li> </ul>
<b>Market access</b>	<ul style="list-style-type: none"> <li>▪ Further incremental improvement of foreign market access, but informal discrimination persists and sensitive sectors remain off limits</li> <li>▪ China continues industrial policy approaches with the explicit goal to replace foreign firms with domestic suppliers</li> </ul>
<b>External Affairs</b>	<ul style="list-style-type: none"> <li>▪ Beijing continues to prioritize autonomy and independence from non-Chinese suppliers as key foreign economic policy goal</li> <li>▪ OECD nations disengage from China in several sectors through export controls, trade instruments and investment restrictions, especially in tech sectors</li> </ul>

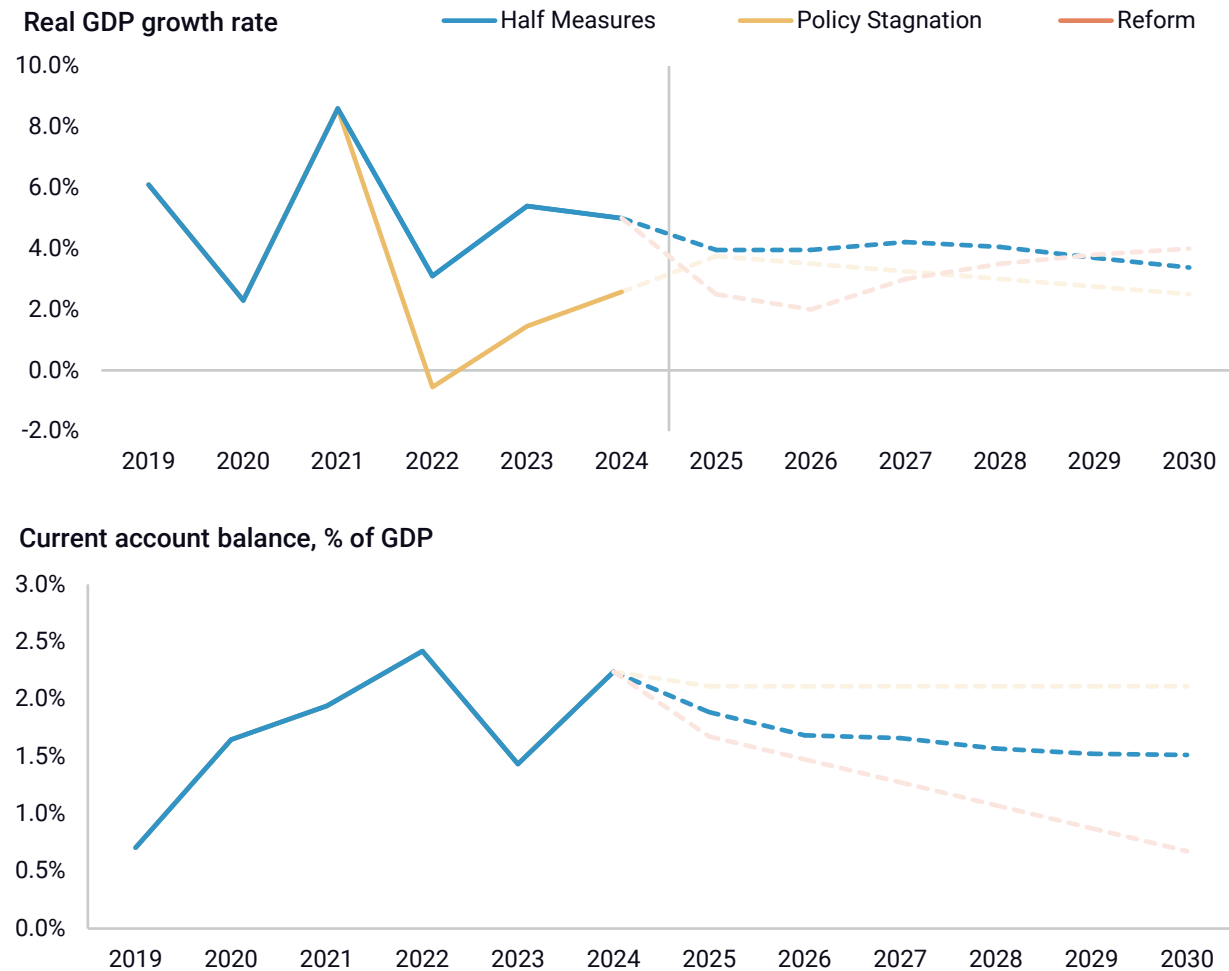
Source: Author

The IMF Article IV forecast calls for a zero contribution of net exports to real GDP growth, which, in the absence of information on the evolution of export and import prices, implies a constant nominal trade balance in GDP. This requires faster growth of imports relative to exports given China's large trade surplus. With the nominal trade surplus fixed amid continued GDP growth and mild, gradual shifts in the domestic savings/investment balance, the current account balance declines as a share of GDP to 1.5% by 2030 (Figure 21).

FIGURE 21

**Scenarios for China's GDP growth and current account balance through 2030**

Annual percent growth (left chart), index (right chart)



Source: National Bureau of Statistics, IMF World Economic Outlook database, author.

**EXTERNAL FINANCIAL POSITION**

Despite a lower current account surplus, China's **net IIP** still reaches \$5.5 trillion by 2030 (Figure 22). The overall level of China's external financial flows is significantly higher than in the stagnation scenario since there will be greater overall foreign demand for investments in China, giving Beijing more flexibility on capital outflows. The **degree of China's global financial integration**—as measured by the ratio of total assets and liabilities and GDP—slightly increases from 0.91 to 0.95 by 2030 (but still remains well below the peak of 1.1 in 2010).

**Assets** grow at a slightly higher rate than in the past five years (7%), driven by both sovereign and state-related entities, but more so private sector FDI. **Liabilities** also grow at a higher rate than in the previous five years (6%) because of pockets of growth (service sectors) and foreign investors that keep increasing exposure to Chinese securities as part of their global diversification strategy.

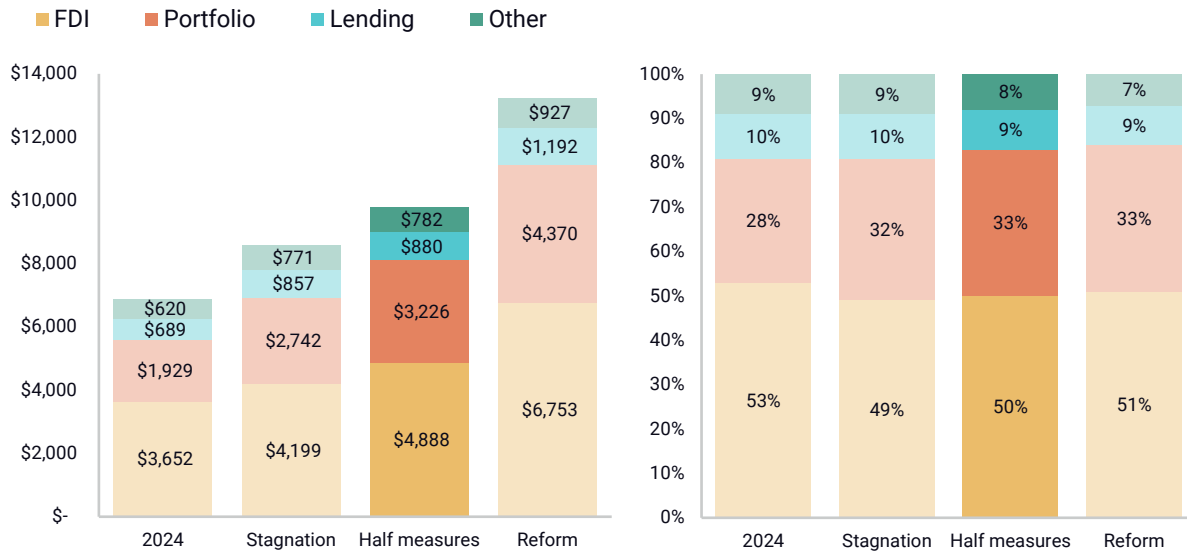
FIGURE 22  
**China's external assets and liabilities in 2030 under various scenarios**  
 USD billion



Source: Author projections. See Appendix for more details.

The **composition of China's external liabilities** sees a further shift toward portfolio investment (Figure 23). FDI is more robust than under the stagnation scenario as foreign firms get additional opportunities in services and domestic consumption-related sectors. However, Beijing does not meaningfully change its approach to keep key sectors off limits for foreign firms and reduce dependence on foreign-made goods. Portfolio investment inflows sees a significant bump as global asset managers keep their allocation to China largely stable as part of their global risk allocation strategies. However, continued support for state-linked firms prevents the development of robust credit ratings and default resolution institutions, impeding more aggressive foreign portfolio investment in China. The share of lending and other investment remains similar to the 2024 baseline.

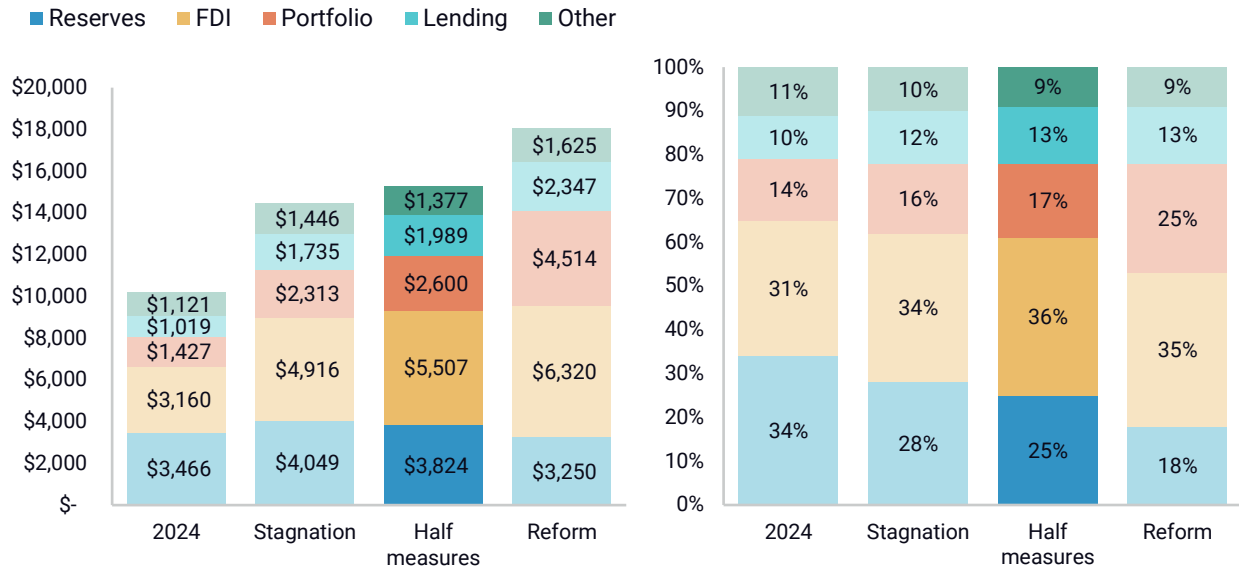
FIGURE 23  
**China's external liabilities in 2030 under various scenarios**  
 USD billion



Source: Author projections. See Appendix for more details.

The **composition of China's external assets** more meaningfully shifts toward FDI and portfolio investment (Figure 24). The share of **reserves** further declines to only 25% of China's total assets. Outbound **FDI** by Chinese companies grows faster than under policy stagnation as Beijing is more confident to tolerate outflows and host countries are more welcoming to Chinese greenfield FDI to create jobs and reduce trade imbalances with China. However, economic planners continue to contain the overall level of capital outflows including OFDI. Moreover, national and economic security concerns by host economies related to Chinese ownership of local assets do not dissipate under this scenario. As a result, growth of Chinese OFDI does not return to expansion witnessed during boom years 2014 to 2016. **Portfolio investment** also expands more than in the policy stagnation scenario but only within the established schemes that allow Beijing to control the level of flows. Capital controls remain firmly in place with strict limits on formal outbound financial investment by households. The share of **lending** increases compared to the historical baseline as Chinese commercial banks follow their customers' international expansion and expand their cross-border lending to overseas subsidiaries of Chinese firms.

FIGURE 24  
**Growth of China's external assets in 2030 under various scenarios**  
 USD billion



Source: Author projections. See Appendix for more details.

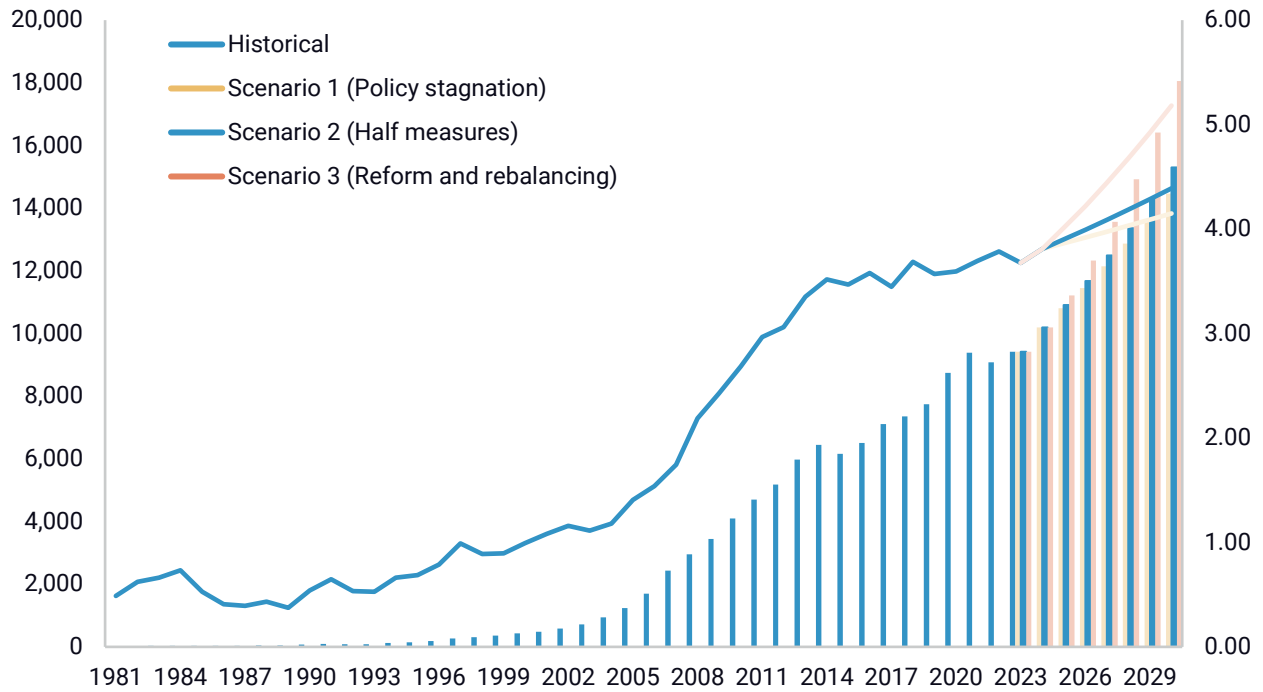
### FINANCIAL STATECRAFT IMPLICATIONS

Compared to the policy stagnation scenario, China's **latent economic statecraft capacity** fares better under this scenario. Resilience of economic growth and continued success in fostering technology and innovation in specific areas allows Beijing to showcase the resilience of its economic model and adaptability of the Party-State.

However, the pace of financial integration does not meaningfully accelerate and thus Beijing continues to focus on traditional economic statecraft rather than financial leverage. China increases its external financial assets to \$15.3 trillion by 2030, lifting its **relative share in total global financial assets** to 4.4% (Figure 25), which is only marginally higher than under policy stagnation. China's NIIP expands to \$5.5 trillion over the same period.

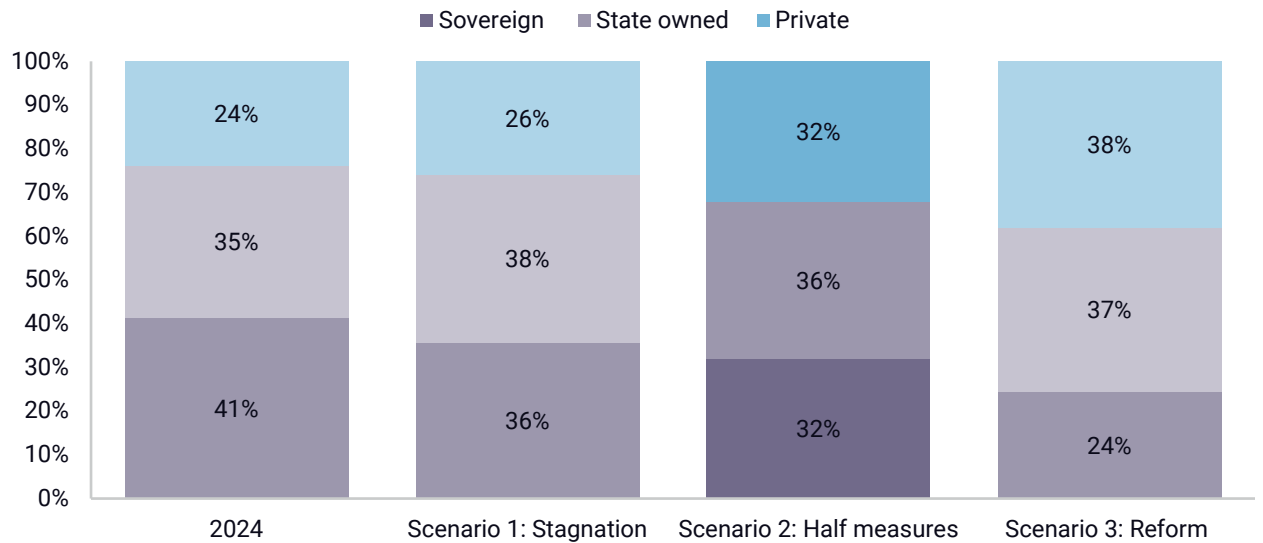
The growth of OFDI and portfolio investment increases private **ownership of China's external assets** (Figure 26). Private firms hold 32% of China's external assets, up from an estimated 24% in 2024. However, Beijing continues to exert significant control over these assets through influence over companies and remaining capital control levers. Chinese transnational enterprises evolve as more powerful players in China—that can both influence the domestic political economy and function as a new generation of international power brokers—broaden China's financial statecraft options beyond the traditionally available tools.

FIGURE 25  
**China's share in global external financial assets by 2030**  
 USD billion (bar, left) and percent (line, right)



Source: Author projections. Global asset growth extrapolated based on 2010-2024 annual average growth rate (4.5%). See Appendix for more details.

FIGURE 26  
**China's external assets by ownership in 2030 by scenario**  
 Percent of total



Source: PRC SAFE, author projections

China's **financial statecraft priorities** become more balanced than under the policy stagnation scenario. Beijing continues to put high priority on defensive policies that reduce the potential of external shocks and vulnerability to foreign capital, goods, and services. Bilateral engagements will remain a centerpiece of China's financial diplomacy, but a more accommodative international environment possibly provides openings for greater collaboration in multilateral organizations. China's central bank continues to intervene to support the CNY. Beijing continues to promote the international use of the Chinese currency but persistent currency intervention and remaining controls on the two-way flow of portfolio investment slows internationalization of the yuan. China does not make much progress in becoming a global financial hub within the 2030 timeframe. Finally, access to economic data and corporate information remains sensitive, but under this scenario Beijing possibly returns to a less politicized dissemination of economic data.

### Scenario 3: Reform and Rebalancing

Scenario 3 represents the optimistic scenario in which Beijing undertakes bold but feasible structural reforms needed to place growth on a more sustainable trajectory.

#### DOMESTIC GROWTH AND CURRENT ACCOUNT

To meaningfully boost long-term consumption demand, Beijing pursues some combination of tax reform to raise revenue, expanded local government spending on social services, and hukou and land reform to address urban-rural inequality and the precarious position of migrant workers, among other measures.<sup>64</sup>

Notably, this upside scenario implies a difficult short-term adjustment, with weaker near-term growth than in either of the other two scenarios, as Beijing pulls the plug on credit allocation to unproductive investments. Overhauling the fiscal system takes time, and the benefits take several years to begin to bear fruit. Eventually, however, the persistent negative output gap closes and growth rises to potential, potentially close to 4% by 2030 in a best-case scenario (Figure 27).

TABLE 5  
Policy assumptions: Scenario 3 (Reform and rebalancing)

Area	Key Assumptions
Credit system	<ul style="list-style-type: none"> <li>▪ China manages debt by changing rules for local government borrowing: local government funding is done on Central balance sheet.</li> <li>▪ Controlled financial risks are introduced into the system; riskier products are allowed to fail in larger numbers.</li> <li>▪ The amount of credit given to SOEs is reduced and private corporations with better-performing loans get higher share of credit.</li> <li>▪ As credit gets cleaned up and less distorted, credit ratings better reflect risk.</li> </ul>

<sup>64</sup> See Boullenois, C., et al. (2025). *How Can China Boost Consumption?* Rhodium Group. <https://rhg.com/research/how-can-china-boost-consumption/>.

<b>Bailouts</b>	<ul style="list-style-type: none"> <li>▪ Some LFGVs and SOEs are allowed to fail based on Beijing's preferences, focusing on structural zombies.</li> <li>▪ Some bailouts (via loan forbearance, refinancing, and recapitalizations) still occur.</li> </ul>
<b>Capital controls</b>	<ul style="list-style-type: none"> <li>▪ Capital controls remain in place in short term to avoid trouble during credit cleanup but are reduced in medium term and eventually fully removed.</li> <li>▪ Errors and omissions remain high in short term but gradually decline as outward investment leaves through proper channels</li> </ul>
<b>Interest Rates</b>	<ul style="list-style-type: none"> <li>▪ Domestic interest rates start to reflect market credit risks.</li> <li>▪ Overall interest rates rise as a larger proportion of loans reflect the real possibility of defaults by market participants.</li> <li>▪ Risk-free interest rates on government bonds decline, and differences between market interest rates and risk-free rates widen.</li> </ul>
<b>Foreign exchange</b>	<ul style="list-style-type: none"> <li>▪ Gradual allowance towards weaker RMB over time as China relinquishes tight controls over the exchange rate.</li> <li>▪ There is less defense of the currency, and the government will gradually allow downward pressure to affect the exchange rate.</li> <li>▪ But the exchange rate faces less severe pressure because China's reforms are successful at facilitating inflows.</li> </ul>
<b>Market access</b>	<ul style="list-style-type: none"> <li>▪ China abolishes formal and informal discrimination of foreign owned firms and establishes full national treatment and market contestability for foreign firms except in a narrow set of security-relevant sectors.</li> </ul>
<b>External Affairs</b>	<ul style="list-style-type: none"> <li>▪ Beijing curbs "Wolf Warrior" impulses and reduces support of Russia and other pariah states.</li> <li>▪ China-OECD derisking focuses on areas with major national and economic security concerns.</li> <li>▪ OECD nations identify new competition and industrial policy tools to address concerns about Chinese dominance of supply chains and specific sectors.</li> </ul>

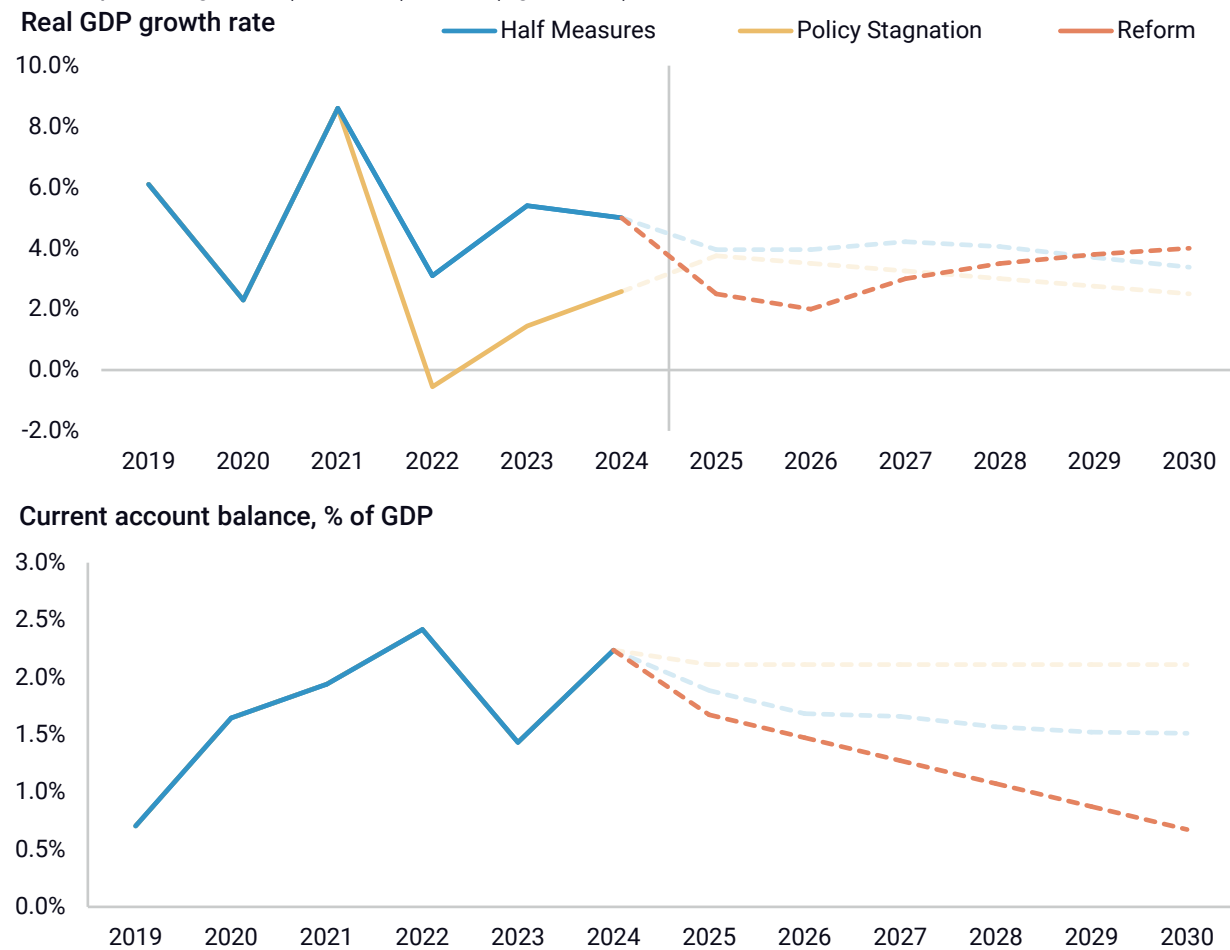
Source: Author

The investment rate is placed on a durable downward trajectory, but it remains well above international norms for a long time to come. Government consumption rises as a share of GDP, supported by new sources of revenue. Trade becomes more balanced as consumer demand improves, the offshoring of lower-end manufacturing accelerates, and previously suppressed market forces compel unprofitable industrial enterprises to close. China continues to run persistent surpluses into the foreseeable future given its high savings rate and enduring comparative advantages, but its current account surplus drops to 0.7% by 2030 (Figure 27).

FIGURE 27

**Scenarios for China's GDP growth and current account balance through 2030**

Annual percent growth (left chart), index (right chart)



Source: National Bureau of Statistics, IMF World Economic Outlook database, author.

**EXTERNAL FINANCIAL POSITION**

The continued current account surplus implies an increase of China's **net IIP** from \$3 trillion in 2024 to \$5.5 trillion by 2030. Overall levels of cross-border capital flow levels increase significantly compared to the other scenarios due to new enthusiasm about China's future and more confidence in global prospects for Chinese firms abroad (though still not quite back yet to 2010-2015 growth rates given the geopolitical environment). The **degree of China's global financial integration**—as measured by the ratio of total assets and liabilities and GDP—rebounds from the current 0.91 to 1.1 by 2030. This is the same level as the previous high in 2010, but still well below the average of mature open economies.

**Assets** grow at a higher rate than in previous five years (10%) as Chinese companies (and to some extent households) catch up on international asset exposure. **Liabilities** also grow at a higher rate (11.5%) as foreign investors regain confidence to increase China exposure

in their portfolio and upgrade China from an emerging market play to part of their mature market portfolio (Figure 28).

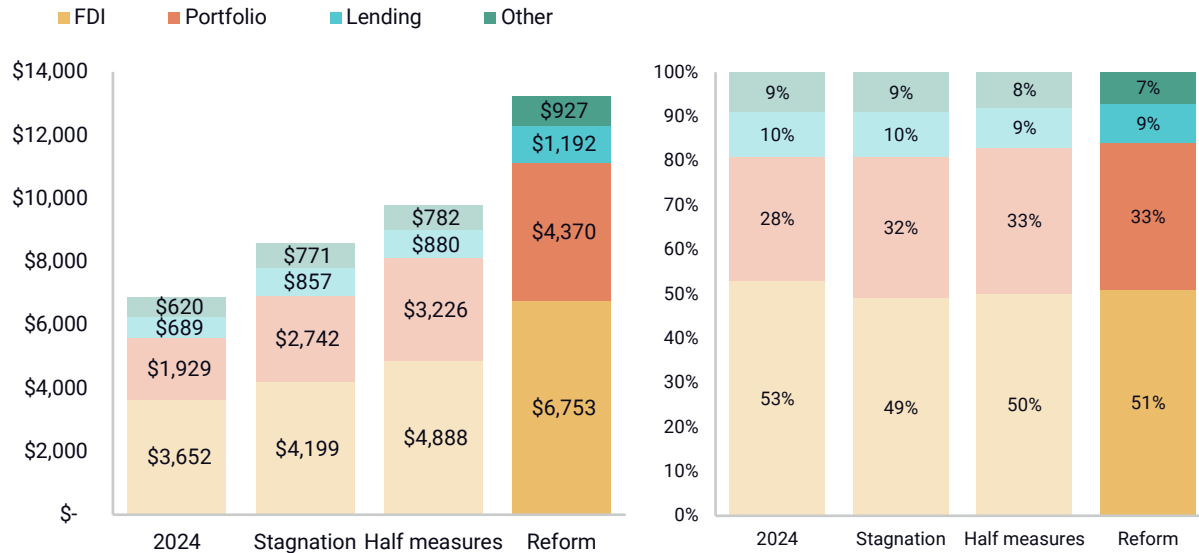
FIGURE 28  
**China's external assets and liabilities in 2030 under various scenarios**  
 USD billion



Source: Author projections. See Appendix for more details.

China's liabilities jump to \$13 trillion, almost twice the current stock of foreign investment in China. The **composition of China's external liabilities** further shift toward shorter-term portfolio investment (Figure 29). FDI remains the dominant foreign asset position in China, but its relative share falls from 53% in 2024 to 51% in 2030. The share of lending and other types of investment drops from a combined 19% in 2024 to only 16% in 2030. Portfolio investment in equity and debt securities surges from 28% of total liabilities in 2024 to 33% in 2030, reflecting inflows of more than \$2 trillion of new capital as global asset managers become more confident in China's economic outlook and move China from their emerging market allocation to their advanced economy portfolio.

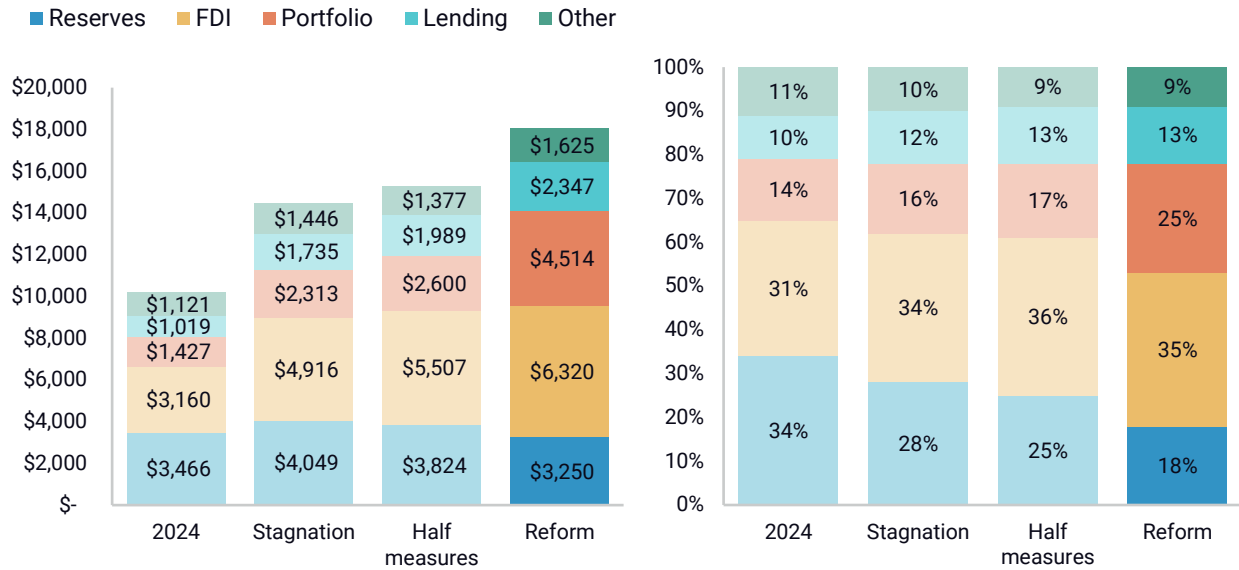
FIGURE 29  
**China's external liabilities in 2030 under various scenarios**  
 USD billion



Source: Author projections. See Appendix for more details.

China's external assets expand less rapidly but still grow to \$18 trillion by 2030. As with foreign assets in China, the **composition of China's external assets** further shifts toward market-driven FDI and portfolio investment (Figure 30). The combined share of FDI and portfolio investment in China's total external assets reaches 60% by 2030, up from 45% in 2024. **Reserves** decline in nominal and absolute terms as market-driven exchange and interest rates reduce the urgency for maintaining large FX reserves. Outbound **FDI** sees strong growth, but some FDI assets are re-classified as portfolio investment assets as Beijing makes revisions to its BOP and IIP statistics to clean up distortions caused by past capital controls. FDI by private enterprises is particularly strong as firms catch up on internationalization. **Portfolio investment** sees the biggest growth and almost triples compared to 2024 levels, but Beijing retains a gradual approach to liberalizing outbound portfolio investments for households to avoid large-scale uncontrolled outflows. Portfolio investment outflows is also likely bolstered as unexplained "grey" outflows that were historically captured as "Net Errors and Omissions" are formally recorded as portfolio investment outflows. **Lending** and other outflows grow proportionate to FDI and portfolio investment outflows.

FIGURE 30  
**Growth of China's external assets in 2030 under various scenarios**  
 USD billion



Source: Author projections. See Appendix for more details.

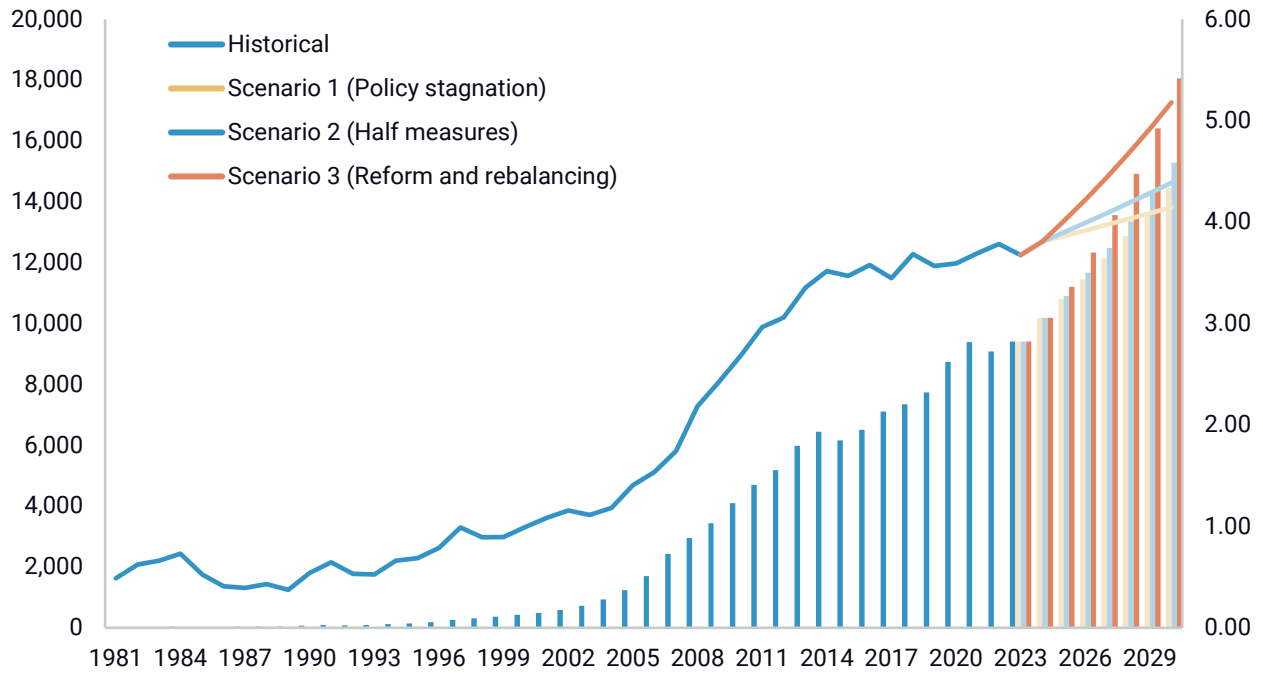
### FINANCIAL STATECRAFT IMPLICATIONS

Under this scenario, China's **latent economic statecraft capacity** first diminishes as it undertakes reforms but then fares significantly better as growth rebounds and the long-term economic outlook brightens.

Compared to the other two scenarios, the pace of external financial integration accelerates compared to the previous decade. China increases its external financial assets to \$18 trillion by 2030, lifting its **relative share in total global financial assets** to 5.2% (Figure 31), putting it on a similar growth trajectory as during 2010-15. China's NIIP expands to \$1.5 trillion over the same period. This trajectory gives Beijing an opportunity to significantly expand its financial statecraft toolbox compared to the current configuration but also increases China's exposure to international financial volatility and financial statecraft by other nations.

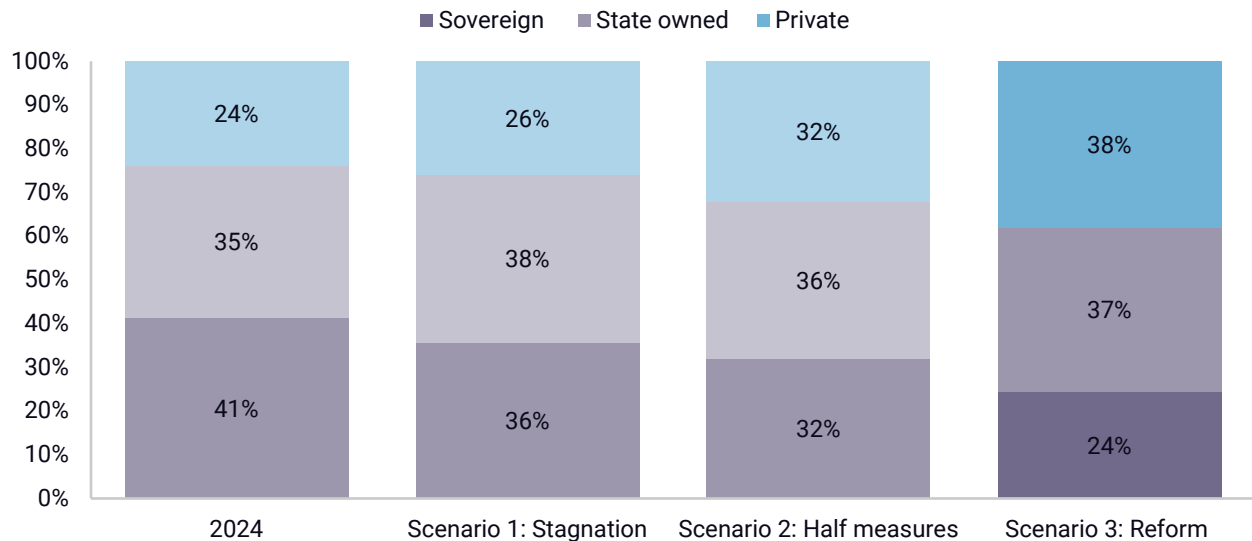
The expansion of outbound FDI and especially portfolio investment further increases the share of nominally private **ownership of China's external assets** to 38%, the highest of all scenarios (Figure 32).

FIGURE 31  
**China's share in global external financial assets by 2030**  
 USD billion (bar, left) and percent (line, right)



Source: Author projections. Global asset growth extrapolated based on 2010-2024 annual average growth rate (4.5%). See Appendix for more details.

FIGURE 32  
**China's external assets by ownership in 2030 by scenario**  
 Percent of total



Source: PRC SAFE, author projections

Financial sector reforms likely result in greater financing flowing to private enterprises, boosting their capacity to expand overseas and their role as power brokers for China's financial statecraft. However, while Chinese private sector firms likely gain influence in the world, the nature of this influence is, by design, less centralized and less subject to state control.

The growth of portfolio investment assets also represents an expansion of ultimately private household wealth. However, even under the reform scenario, Beijing is expected to maintain instruments to control the level of portfolio outflows and inflows. Those include direct ownership and influence over brokerages and other financial intermediaries, pilot programs with quotas for daily or total flows, and narrative control over financial media and communication.

There are also important shifts within the category of state-linked investors. Under a reform scenario, local government power over financial statecraft is the most heavily affected. The rationalization of China's credit system requires gradually weaning local governments off cheap financing, impacting their ability to provide financing for international activities to local SOEs. Central SOEs also stand to lose from comprehensive financial reform in the form of higher borrowing costs, and SOEs face more discipline through corporate governance reforms or (partial) privatization or asset spin offs. However, even under a reform scenario, Beijing is unlikely to give up its approach to maintaining control over the commanding heights of the economy through SOEs, including overseas activities such as global logistics, international infrastructure investment, and securing equity stakes in upstream resources.

Policy banks are unlikely to see their capabilities and role expand. China Development Bank (CDB) and China EXIM loans, already only a small proportion of China's total annual lending, come down further. Commercial banks (even state-owned commercial banks), on the other hand, have increased autonomy to lend according to risk and to support private firms' overseas projects and investments on their own merits. Much of this is channeled through overseas affiliates and branches, with a focus on emerging markets and nations with high penetration of Chinese corporations. However, this expansion is not linear as commercial banks are forced to rebalance risk across their loan portfolios and provide capital for domestic restructuring.

China's **financial statecraft priorities** become more diverse. During the initial period, defensive interests continue to dominate or even increase as Beijing seeks stability to implement difficult reforms. If those reforms are successful, China's options for offensive financial statecraft broaden significantly. Successful reforms mean sustainable GDP growth and thus greater resources for China's leadership and the entities upon which it maintains tight control. Chinese companies, banks, and other financial power brokers grow in size and competitiveness, and Beijing can rely on them to channel money and influence across the globe. In the long run, greater financial resources and stability potentially opens up additional opportunities for multilateral collaboration. China's exchange rate faces depreciation pressure in the initial period but a positive economic outlook attracts inflows and thus stabilizes the yuan. Greater levels of two-way financial flows and less currency intervention also open up an opportunity to more earnestly promote the international use of the Chinese currency toward the end of this period.

Importantly, even under the reform scenario, tension between China and foreign countries cannot be expected to dissipate overnight. Even in the best case, China still presents a strategic challenge to the EU, United States, and other nations. China will likely moderate its most assertive diplomatic impulses and move to patch up pragmatic relations with the EU and United States, limiting the extent of any decoupling. However, the fundamental systemic differences and resulting national and economic security concerns continue to define relations with China, leading to greater fragmentation of the global economy as democratic market economies and developing countries alike insist on policy guardrails to address these risks. These guardrails likely include measures to limit Chinese investment in specific sectors, screen transactions for national security risks, and condition Chinese capital to ensure local benefits.

## Conclusions and US Policy Implications

While not a precise econometric modeling exercise, these scenarios for China's growth and IIP help illustrate a range of potential outcomes for China's financial statecraft capacity and preferences through 2030. This section summarizes the key findings and outlines implications for short- and medium-term US policy planning.

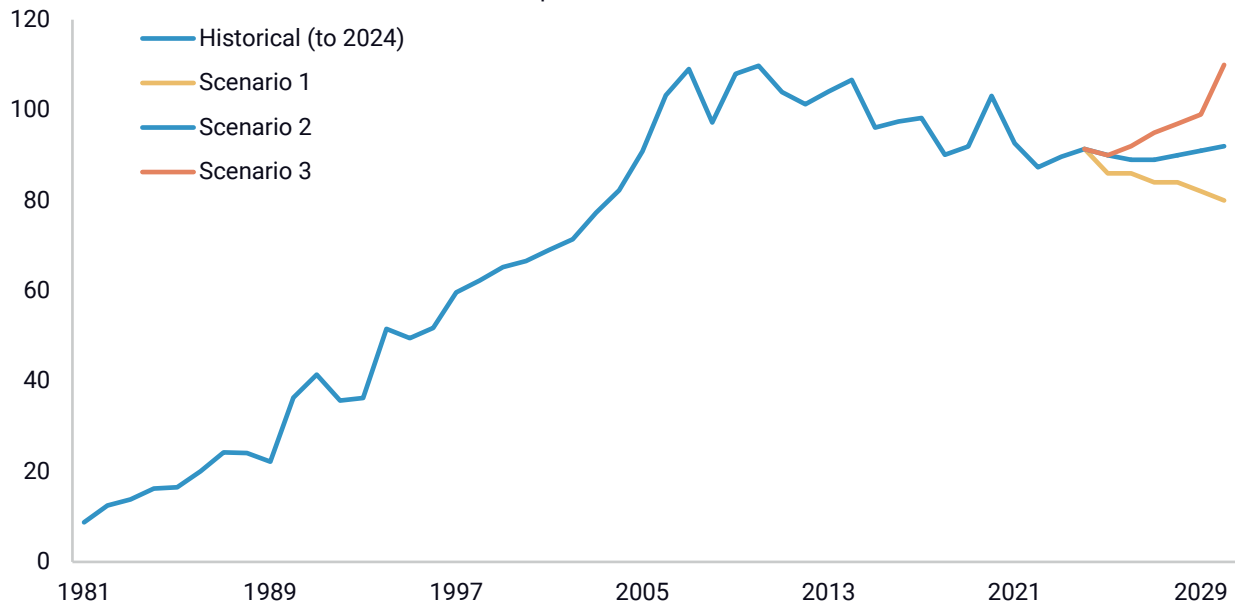
### Key findings

First, **China's external financial integration is likely to stagnate or decline further.** China's relative financial integration—measured as combined external assets and liabilities as a share of nominal GDP—peaked around 2010 and has gradually fallen since, as domestic GDP has expanded more rapidly than cross-border financial assets. China's level of external financial integration remains low in global comparison, and it would be even lower if one accounted for extensive round-tripping and other distortions. Under two of the three scenarios, this downward trend continues through 2030: Only the reform scenario reverses it, returning China's degree of financial globalization roughly to its 2010 level (Figure 33). A more pronounced shift is improbable, as the lack of deep reforms has constrained Beijing's ability to loosen capital controls in a more substantial way.

FIGURE 33

#### China's external financial integration, 1981-2030

China's combined IIP assets and liabilities as percent share of GDP



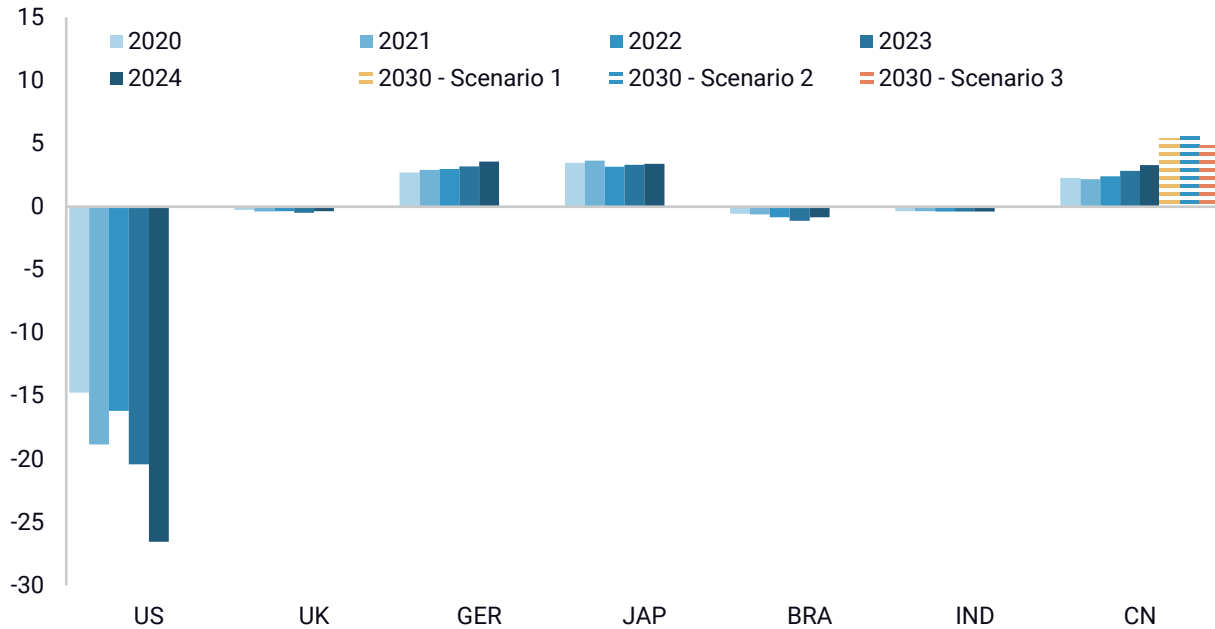
Source: PRC National Bureau of Statistics, SAFE, author projections and calculations.

Second, **even at relatively low levels of global financial integration, China's direct financial statecraft capacity will continue to expand.** Under all scenarios, China remains among the world's ten largest economies in terms of combined external financial assets and liabilities. It will also continue to rank as one of the top global creditor nations (Figure 34), with far greater external assets than any other emerging economy or non-democratic nation. China will not become a global financial superpower, but it will retain substantial

firepower to pursue financial statecraft objectives. These include the provision of loans and aid to politically aligned governments (for instance, infrastructure financing in Pakistan or Zambia), funding projects that reduce strategic dependence on foreign inputs (such as lithium mining or semiconductor materials), and supporting greenfield FDI in strategically important geographies. China is also likely to continue investing in alternative financial and digital networks and promoting governance frameworks that challenge established norms.

China's *latent* financial statecraft capacity—its ability to attract rather than project capital—is less certain. Its appeal has weakened amid slower growth and doubts about the sustainability of its overseas engagement, particularly under the BRI. In two of the three scenarios, this latent capacity erodes further, though in the reform scenario it could recover significantly if markets perceive a credible policy pivot.

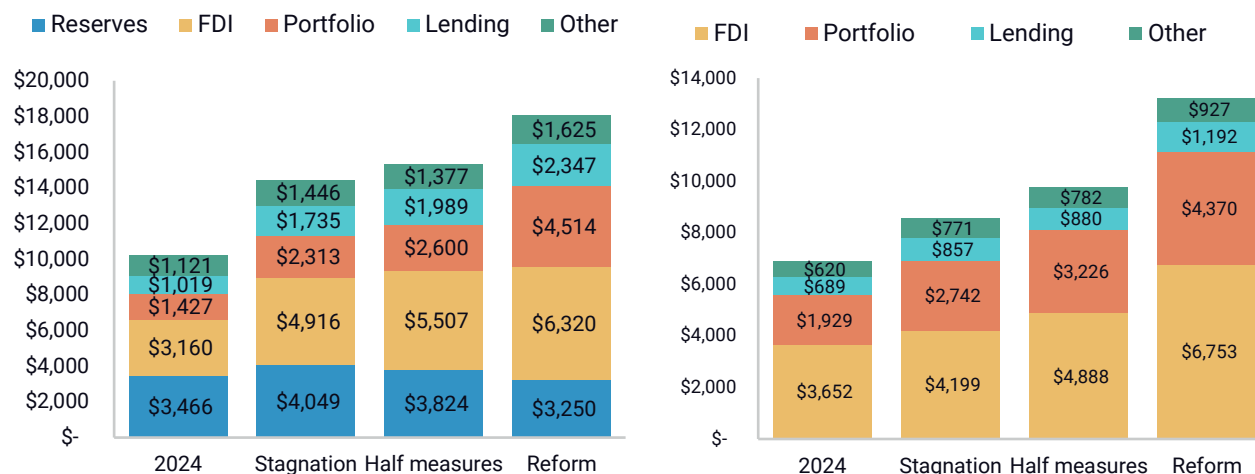
FIGURE 34  
**Net international investment position, selected economies, 2020-2024**  
 USD trillion



Source: PRC SAFE, IMF, author projections and calculations.

Third, **while the variance across scenarios in overall asset and liability levels is modest, the composition differs markedly.** China's external assets are poised to grow in all cases, but outbound FDI and portfolio investment would expand far more rapidly under a reform scenario (Figure 35). FDI remains the dominant category of external liabilities, yet portfolio investment could become a close second if Beijing succeeds in convincing global institutional investors—such as pension funds and sovereign wealth funds—to raise their exposure to Chinese equities and bonds.

FIGURE 35  
**China's external assets and liabilities in 2030 under various scenarios**  
 USD billion



Source: Author projections. See Appendix for more details.

Fourth, **China's external financial assets will remain predominantly under government control.** Although official data are limited, current evidence suggests that China's external assets are overwhelmingly held by sovereign and other state-affiliated entities, including the PBOC, state-owned commercial banks, and policy banks such as the CDB and the Export-Import Bank. Under a reform scenario, the share of private investors could rise from roughly 24% to 38% as outbound private FDI and portfolio investment increase. Still, state-linked actors would control about two-thirds of China's global assets, and Beijing would retain multiple levers—regulatory, financial, and political—to influence both the scale and direction of cross-border capital flows. In this respect, China will remain a global outlier in the concentration of state-owned external financial assets, enabling it to deploy these holdings for strategic and political purposes.

Fifth, **China's efforts to diversify its external financial assets away from advanced economies have clear limits.** Over the past decade, Beijing has intensified its push to reduce exposure to the US and other democratic markets, encouraging greater financial engagement with developing economies. Examples include expanded cross-border lending by policy banks under the BRI, diversification of PBOC reserves and bilateral currency swaps, and targeted outbound FDI supported by sectoral industrial policies. These efforts achieved partial success—for instance, increasing FDI into Southeast Asia, Africa, and the Middle East—but the overall rebalancing remains modest.<sup>65</sup> Much of the apparent reduction in exposure to advanced economies reflects efforts to *conceal* Chinese holdings via offshore financial centers such as Hong Kong, the Cayman Islands, and Singapore.<sup>66</sup> This structural pattern is unlikely to change: The depth and liquidity of advanced financial markets and their sustained demand for Chinese goods will ensure

<sup>65</sup> Hanemann, T., Meyer, A., and Goh, D. (2024). *The Next Generation of China's Outbound Investment*. <https://cbm.rhg.com/research-note/next-generation-chinas-outbound-investment>.

<sup>66</sup> Setser, B. (2023). *How to Hide Your Foreign Exchange Reserves—A User's Guide*. <https://www.cfr.org/blog/how-hide-your-foreign-exchange-reserves-users-guide>.

that China's effective exposure to the US and other high-income economies continues to rise.

Sixth, **transparency on China's external financial position remains poor and could deteriorate further.** Official balance of payments and IIP statistics contain significant legacy distortions, and discrepancies have widened in recent years. China does not comply with the IMF's SDDS standards, and political interference almost certainly affects data on sensitive indicators such as trade surpluses and external assets.<sup>67</sup> Capital controls and political scrutiny encourage both corporates and households to channel funds through opaque offshore structures, creating large pools of *grey capital* in Hong Kong, Singapore, and the Caribbean. These pools obscure true ownership and amplify risks of illicit activities, speculative outflows, and potential contagion. Under all three scenarios through 2030, such incentives—and related systemic risks—are likely to persist.

## Policy implications for the United States

China's financial globalization may have plateaued, but its ability to mobilize large pools of state-controlled capital abroad—through policy banks, sovereign funds, and state-owned enterprises—will continue to grow. US policymakers should focus on targeted, sector-specific measures to counter areas where Chinese financial activity challenges US economic, security, and governance interests, while maintaining space for pragmatic cooperation if China's trajectory shifts toward reform and openness.

First, **right-size the China challenge.** China is unlikely to become a global financial superpower by 2030, with cross-border assets and liabilities remaining below 5% of the world total. Yet, it will remain the world's largest non-democratic financial actor—capable of deploying state-directed finance to shape global outcomes. US policy should calibrate its response accordingly. Instead of alarmist rhetoric, the US should formulate a response that includes both competitive and collaborative elements.

Second, **define clear US policy priorities to tackle risks arising from China's growing global financial footprint.** In the short run, Beijing will more likely rely on traditional economic statecraft tools such as export controls or market access restrictions. However, China's growing international financial footprint is challenging US policy interests across several areas. The review of historical Chinese financial statecraft patterns and the scenarios presented in this report suggest the following priorities:

- Promote transparency and accuracy of Chinese official BOP/IIP statistics to accurately understand flows, tackle illicit financial activities and assess global financial stability risk resulting from the expansion of Chinese cross-border capital flows.
- Develop additional lending and development finance alternatives and develop anti-coercion tools to counter China's financial influence over smaller nations.
- Expand and refine international sanctions tools to effectively curb Chinese financing of problematic entities and technologies in adversarial nations.

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<sup>67</sup> Setser, B.W. (2025) *China's Data Still Doesn't Add Up*. Council on Foreign Relations Blog. Available at: <https://www.cfr.org/blog/chinas-data-still-doesnt-add>

- Identify policies and new frameworks to level the playing field for competing with emerging Chinese MNCs in light of the rebound of Chinese outbound FDI.

Finally, **identify potential areas of collaboration regarding China's growing external footprint**. While defensive measures should have priority in the context of persisting US-China competition, the US should recognize that there is a role for Chinese outbound finance and identify collaboration opportunities, for example:

- Identify frameworks to deploy China's financial resources to expand global climate finance and accelerate decarbonization.
- Collaborate with Chinese regulators on financial stability in Asia and globally.
- Identify opportunities for debt relief and restructuring for developing countries.

Scoping out areas for collaboration will be particularly important if Beijing overcomes reform paralysis and moves toward a half-measures or reform scenario.

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## Methodology Appendix

This Appendix describes the report's approach to the scenario exercise in Section 3.

### Goals and caveats

The data presented in this report do not reflect a complex technical equilibrium modeling exercise with the goal of producing detailed projections on cross-border capital flows. Rather, they are a scenario building exercise to illustrate how Beijing's policy choices could shape China's growth through 2030, external financial position, and statecraft behavior.

One important caveat is that the numbers presented in this report mostly rely on official Chinese statistics as historical baseline. However, there are mounting concerns about the accuracy of official Chinese GDP and BOP data.<sup>68</sup> The first scenario reflects lower-than-reported growth in the past five years. The third scenario reflects certain adjustments to China's IIP that would result from removing capital controls, and thus, some of the incentives to misreport cross-border capital flows.

### Scenario selection

Our selection of three scenarios is based on a review of existing growth projections and the author's assumptions of possible pathways. The base case "half measures" scenario (Scenario 2) accepts China's official GDP statistics as a historical baseline and leans heavily on the latest IMF numbers for China's medium-term outlook. There is also a pessimistic scenario (Scenario 1), which assumes stagnation of economic reforms and thus the most pronounced medium-term downturn. The optimistic scenario (Scenario 3) assumes that Beijing undertakes structural reforms that place China's growth on a more sustainable trajectory.

Each scenario is described by how seven aspects of China's monetary and banking system change:

- **Credit system:** China's rules for local government borrowing, allocation of credit within the economy, management and pricing of risk in credit system
- **Access to bailouts:** Access to government bailouts for failing or stressed firms
- **Capital controls:** Restrictions on access to foreign exchange and/or transfers of capital/cash abroad
- **Market access:** Barriers to investment or going operations for foreign firms, including joint venture requirements
- **Foreign exchange:** The general stance of PBOC towards weaker or stronger RMB, currency defense
- **Interest rates:** The direction of interest rates
- **External affairs:** The status of China's relationship with the outside world, including geopolitical tension and trade/capital flow disruption

<sup>68</sup> Setser, B. and Weilandt, M. (2025). *China's Data Still Doesn't Add Up*. Council on Foreign Relations. <https://www.cfr.org/blog/chinas-data-still-doesnt-add>.

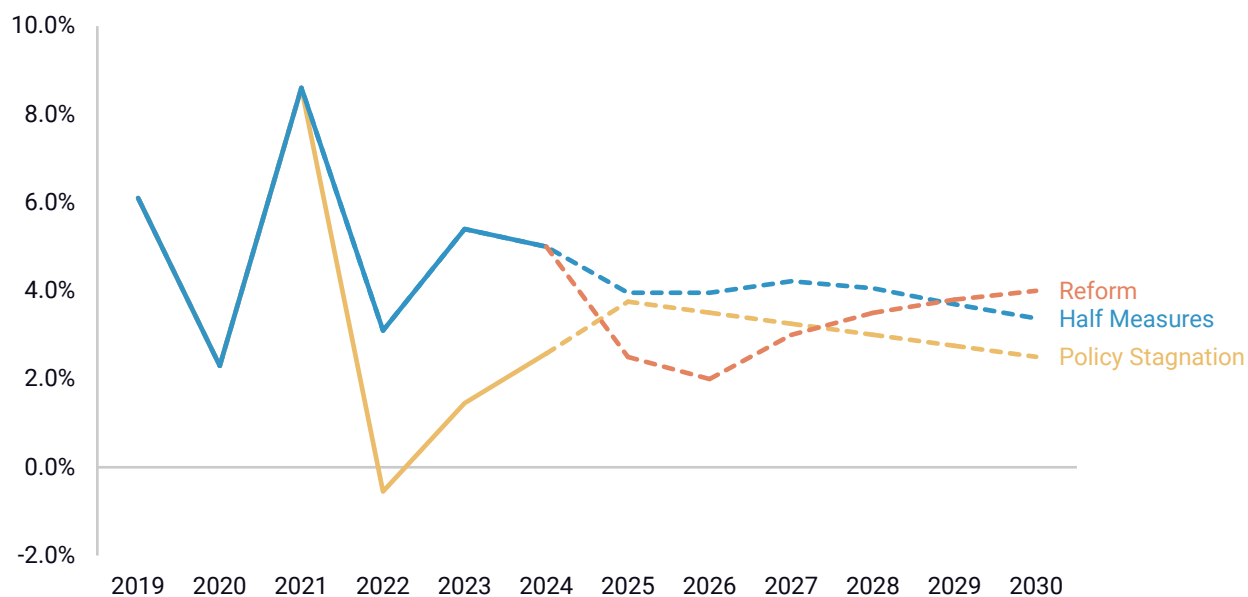
## GDP projections

For each scenario, the report defined expected annual GDP growth rates for 2025 through 2030, reflecting the assumptions and policy choices. The baseline Scenario 2, which aligns with IMF projections, served as an anchor, with Scenarios 1 and 3 deviating on the downside and upside, respectively (Appendix Table 1, Appendix Figure 1).

APPENDIX TABLE 1  
GDP growth rates through 2030 under each scenario

	<u>Scenario 1: Policy Stagnation</u>	<u>Scenario 2: Half Measures</u>	<u>Scenario 3: Reform</u>
2019	6.1%	6.1%	6.1%
2020	2.3%	2.3%	2.3%
2021	8.6%	8.6%	8.6%
2022	-0.6%	3.1%	3.1%
2023	1.5%	5.4%	5.4%
2024	2.6%	5.0%	5.0%
2025	3.8%	4.0%	2.5%
2026	3.5%	4.0%	2.0%
2027	3.3%	4.2%	3.0%
2028	3.0%	4.1%	3.5%
2029	2.8%	3.7%	3.8%
2030	2.5%	3.4%	4.0%

APPENDIX FIGURE 1  
Scenarios for China's GDP growth through 2030  
Annual percent growth



Source: National Bureau of Statistics, IMF World Economic Outlook database, author.

## Current account projections

For each scenario, current account balances for 2025-2030 are defined based on available projections for the baseline scenario, partially derived from the IMF's outlook, as well as the policy choices under each scenario (Appendix Table 2, Appendix Figure 2).<sup>69</sup>

APPENDIX TABLE 2

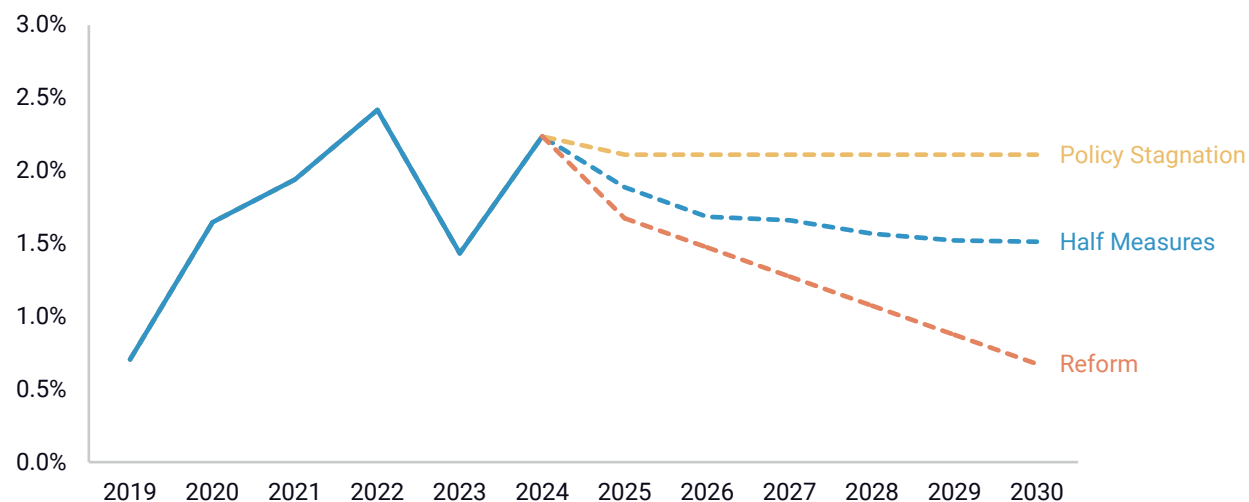
### Current account balances through 2030 under each scenario

Percentage share of GDP

	<u>Scenario 1: Policy Stagnation</u>	<u>Scenario 2: Half Measures</u>	<u>Scenario 3: Reform</u>
2019	0.7%	0.7%	0.7%
2020	1.6%	1.6%	1.6%
2021	1.9%	1.9%	1.9%
2022	2.4%	2.4%	2.4%
2023	1.4%	1.4%	1.4%
2024	2.2%	2.2%	2.2%
2025	2.1%	1.9%	1.7%
2026	2.1%	1.7%	1.5%
2027	2.1%	1.7%	1.3%
2028	2.1%	1.6%	1.1%
2029	2.1%	1.5%	0.9%
2030	2.1%	1.5%	0.7%

APPENDIX FIGURE 2

### Current account balances through 2030 under each scenario



Source: National Bureau of Statistics, IMF World Economic Outlook database, author.

<sup>69</sup> These calculations require an assumption for the annual average RMB/USD exchange rate over 2025-30. For the IMF Outlook scenario, the report uses the exchange rate implied by the product of nominal GDP projections for China expressed in local currency and US dollars in the April 2025 World Economic Outlook database. For the Upside and Downside scenarios, the report uses the implied forward exchange rate that satisfies the covered interest parity condition, calculated using yield differentials on US and Chinese central government bonds at relevant tenors.

## Financial account balance and international investment position

For each scenario the report builds estimates for China's assets, liabilities, and net IIP. The overall financial account balance is calculated as the inverse of the current account balance.<sup>70</sup> The change of China's IIP from 2025 to 2030 reflects the sum of annual financial account balances over the entire period. For both assets and liabilities, expected growth rates are formulated based on historical growth rates over the past decade and policy assumptions under each scenario (for example, capital controls or market access) as well as variables relevant for investor sentiment (economic growth levels, regulatory credibility, etc.). Appendix Table 3 presents annual average growth rates for each scenario and resulting financial assets and liabilities. Capital account changes are ignored (because they have historically been marginal), as are valuation effects through exchange rate movements or asset inflation.

APPENDIX TABLE 3

### Assumptions for assets, liabilities, and net IIP for three scenarios

USD billion

#### Scenario 1: Policy Stagnation

	Assets	Liabilities	Net IIP
2024	\$10,193	\$6,891	\$3,302
2025	\$10,805	\$7,146	\$3,659
2026	\$11,453	\$7,410	\$4,042
2027	\$12,140	\$7,685	\$4,455
2028	\$12,868	\$7,969	\$4,900
2029	\$13,641	\$8,264	\$5,377
2030	\$14,459	\$8,569	\$5,889
<b>AAGR</b>	<b>\$4,266</b>	<b>\$1,678</b>	<b>\$2,587</b>

#### Scenario 2: Half Measures

	Assets	Liabilities	Net IIP
2024	\$10,193	\$6,891	\$3,302
2025	\$10,907	\$7,304	\$3,602
2026	\$11,670	\$7,743	\$3,927
2027	\$12,487	\$8,207	\$4,280
2028	\$13,361	\$8,700	\$4,661
2029	\$14,296	\$9,222	\$5,074
2030	\$15,297	\$9,775	\$5,522
<b>AAGR</b>	<b>\$5,104</b>	<b>\$2,884</b>	<b>\$2,220</b>

#### Scenario 3: Reform

	Assets	Liabilities	Net IIP
2024	\$10,193	\$6,891	\$3,302
2025	\$11,212	\$7,683	\$3,529
2026	\$12,334	\$8,567	\$3,766
2027	\$13,567	\$9,552	\$4,015
2028	\$14,924	\$10,651	\$4,273

<sup>70</sup> This calculation assumes that the capital account balance and net errors and omissions on China's balance of payments are equal to zero.

<b>2029</b>	\$16,416	\$11,876	\$4,540
<b>2030</b>	\$18,058	\$13,241	\$4,816
<b>AAGR</b>	<b>\$7,865</b>	<b>\$6,350</b>	<b>\$1,514</b>

Source: PRC SAFE; author projections.

## Breakdown of China's external assets and liabilities by category

After projecting total assets and liabilities by 2030 under each scenario, a breakdown of assets and liabilities is calculated by sub account by taking the 2024 composition and extrapolating the respective share of each category in 2030 based on the scenarios. Assets cover reserves, FDI, portfolio investment, lending, and a residual category including everything else. Liabilities include FDI, portfolio investment, lending, and a residual category. Appendix Table 4 provides detailed figures for assets and liabilities by 2030 as well as a summary of the narrative behind each number.

### APPENDIX TABLE 4

#### Assumptions for assets, liabilities, and net IIP for three scenarios

USD billion, percent share of total

#### Scenario 1: Policy Stagnation

ASSETS	2024		2030		Narrative
Reserves	\$3,466	34%	\$4,049	28%	Continued stability of reserves means decline on relative basis
FDI	\$3,160	31%	\$4,916	34%	Continued increase as firms make globalization push to escape slower growth at home
Portfolio	\$1,427	14%	\$2,313	16%	Continued increase, but no larger jump
Lending	\$1,019	10%	\$1,735	12%	Modest increase as commercial lending goes up due to OFDI expansion of CN firms
Other	\$1,121	11%	\$1,446	10%	Keeping constant
Total	\$10,193	100%	\$14,459	100%	

LIABILITIES	2024		2030		Narrative
FDI	\$3,652	53%	\$4,199	49%	Foreign appetite for new FDI declines, but reinvested earnings from existing base props up stock
Portfolio	\$1,929	28%	\$2,742	32%	Further increase, but no large jump
Lending	\$689	10%	\$857	10%	Relative stability, in line with historical patterns, no readiness to allow foreign cross-border lending into China
Other	\$620	9%	\$771	9%	Keeping constant
Total	\$6,891	100%	\$8,569	100%	

**Scenario 2: Half Measures**

ASSETS	2024		2030		Narrative
Reserves	\$3,466	34%	\$3,824	25%	Relative stability in reserve levels but relative decline, slightly lower than Scenario 1 as BOP anxiety is lower
FDI	\$3,160	31%	\$5,507	36%	Firms make globalization push and less foreign resistance than in Scenario 1
Portfolio	\$1,427	14%	\$2,600	17%	Slightly higher increase than in Scenario 1 due to less restrictiveness
Lending	\$1,019	10%	\$1,989	13%	Increase driven by FDI-related commercial bank lending expansion
Other	\$1,121	11%	\$1,377	9%	Slightly lower than Scenario 1 relative to total assets
Total	\$10,193	100%	\$15,297	100%	

LIABILITIES	2024		2030		Narrative
FDI	\$3,652	53%	\$4,888	50%	Slightly more resilience than in Scenario 1
Portfolio	\$1,929	28%	\$3,226	33%	Greater reliance on financial portfolio inflows than Scenario 1
Lending	\$689	10%	\$880	9%	Relatively stable, small drop compared to Scenario 1
Other	\$620	9%	\$782	8%	Relatively stable, small drop
Total	\$6,891	100%	\$9,775	100%	

**Scenario 3: Reform**

ASSETS	2024		2030		Narrative
Reserves	\$3,466	34%	\$3,250	18%	Relative stability in nominal terms, but sharp decline in relative terms
FDI	\$3,160	31%	\$6,320	35%	Strong growth, but some re-classification of FDI assets to portfolio assets
Portfolio	\$1,427	14%	\$4,514	25%	Significant jump due to both more flows as well as re-classification of FDI to portfolio assets
Lending	\$1,019	10%	\$2,347	13%	Increase driven by FDI-related commercial bank lending expansion
Other	\$1,121	11%	\$1,625	9%	Slightly lower as residual
Total	\$10,193	100%	\$18,058	100%	

LIABILITIES	2024		2030		Narrative
FDI	\$3,652	53%	\$6,753	51%	Reform elicits more enthusiasm among foreign investors
Portfolio	\$1,929	28%	\$4,370	33%	Increase in foreign investor appetite and re-classification of existing liabilities
Lending	\$689	10%	\$1,192	9%	Slightly lower in relative terms
Other	\$620	9%	\$927	7%	Drop as flows get categorized correctly and the residual drops
Total	\$6,891	100%	\$13,241	100%	

Source: PRC SAFE; author projections.

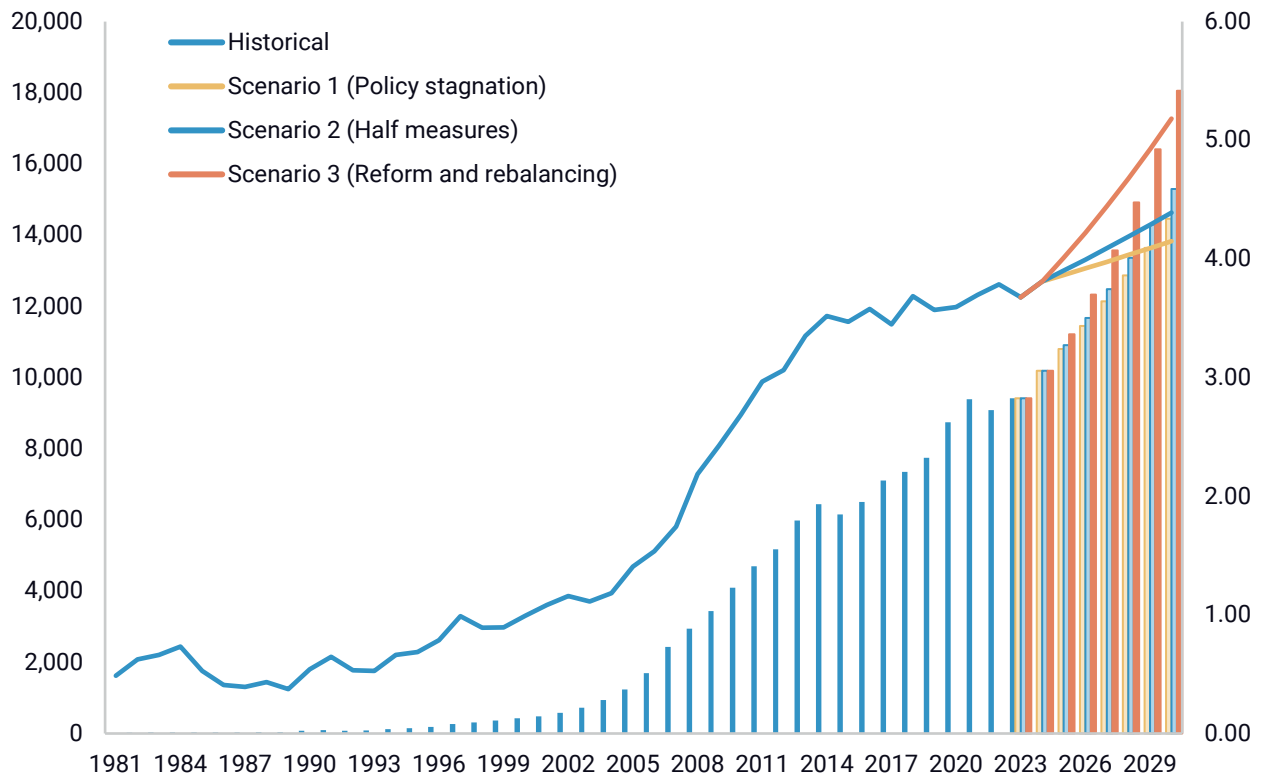
## China's share in global financial assets

China's projected share of global external financial assets is calculated by taking its projected assets under each scenario and dividing them by the projected global total of external financial assets. The latter is calculated using the annual average growth rate of global financial assets from 2010 through 2023 (4.5%) as the annual growth rate forward from 2024 through 2030.

APPENDIX FIGURE 3

### China's share in global external financial assets by 2030

USD billion (left, bar) and percent (right, line)



Source: Historical data from Global Wealth of Nations / IMF; author projections.

## China's external financial assets by ownership

China provides no detailed official figures on the ownership breakdown of its external financial assets. The 2024 baseline estimate is based on the following assumptions:

- By definition, a nation's **reserves** are 100% owned and managed by the government. In China's case, reserves are controlled by the State Administration of Foreign Exchange (SAFE) under the central bank.
- A nation's outbound **FDI** stock is usually dominated by private enterprises but in China's case a significant share of the total OFDI stock is owned by state-owned

enterprises. China's official OFDI statistics do not provide a detailed breakdown of ownership but historical data points from MOFCOM's OFDI Bulletins and alternative OFDI data from Rhodium Group's China Cross-Border Monitor leads us to an estimate for the share of SOEs in total OFDI assets of 53% as of 2024. A total of 2% ownership is assigned to sovereign entities since several vehicles managing China's reserves—for example China Investment Corporation (CIC) or SAFE Investment Company—are engaged in direct investments and it is likely that some of these investments are counted under the OFDI category. Private enterprises account for 45% of total stock as of 2024.

- **Portfolio investment** usually reflects investments in equity and bond securities by retail investors, corporates, institutional investors, banks, and other financial institutions. In China's case, outbound portfolio investment was heavily restricted for households in the past but has recently become more open through controlled channels such as the Southbound Stock Connect Scheme with Hong Kong. There is no robust official data on the ownership breakdown of China's portfolio assets, but based on available data points and proxy data, 15% ownership of China's total portfolio stock in 2024 is assigned to sovereign investors, 50% to state-owned banks and corporations, and 35% to private corporations and households.<sup>71</sup>
- The category of **other investment** includes lending, deposits, trade financing, and other types of investment. A total of 30% of holdings are attributed to sovereign wealth funds and other sovereign entities; another 40% are attributed to policy banks and state-owned commercial banks, reflecting both actual cross-border lending and business activities, but also holdings related to efforts by the central bank to reduce its official reserve numbers.<sup>72</sup> The remaining 30% reflects trade credit assets and deposits by private firms.<sup>73</sup>

These estimates reflect the best efforts to estimate current ownership shares, but they must be seen as partial and imperfect given the many unknowns and caveats. By basing the estimates on the official IIP, these numbers also underestimate the true extent of external financial assets by Chinese households, because they ignore grey money outflows that China's official BOP records under "errors and omissions."

After establishing a baseline 2024 estimate, the ownership share in 2030 is extrapolated based on the growth of each respective category as well as expected changes in ownership composition within each category. Appendix Table 5 summarizes the shares for 2024 and 2030 under each of the three scenarios. Appendix Figure 4 visualizes the data.

<sup>71</sup> Data points consulted for these estimates include official data released by PBOC/SAFE/CSRC, alternative datasets on private wealth and asset management in China, flow of funds data by private data providers, and regulatory data provided by the US SEC, the Hong Kong Securities and Futures Commission (SFC) / HKEX and other bodies.

<sup>72</sup> Setser, B. (2023, June 29) "Shadow Reserves — How China Hides Trillions of Dollars of Hard Currency". The China Project. <https://thechinaproject.com/2023/06/29/shadow-reserves-how-china-hides-trillions-of-dollars-of-hard-currency/>

<sup>73</sup> Estimates are based on data collected by the Hong Kong Monetary Authority on the breakdown of private and non-private mainland lending and trade finance available here: <https://www.hkma.gov.hk/eng/data-publications-and-research/data-and-statistics/monthly-statistical-bulletin>

## APPENDIX TABLE 5

**Estimates for the ownership of China's external financial assets for 2024 and three scenarios**  
Percent share of total**Historical Baseline: 2024**

	<b>Direct Investment</b>	<b>Portfolio Investment</b>	<b>Other Investment</b>	<b>Reserves</b>
Sovereign	2%	10%	25%	100%
State owned	55%	60%	45%	0%
Private	43%	30%	30%	0%

**Scenario 1: Stagnation**

	<b>Direct Investment</b>	<b>Portfolio Investment</b>	<b>Other Investment</b>	<b>Reserves</b>
Sovereign	2%	10%	25%	100%
State owned	55%	60%	45%	0%
Private	43%	30%	30%	0%

**Scenario 2: Half Measures**

	<b>Direct Investment</b>	<b>Portfolio Investment</b>	<b>Other Investment</b>	<b>Reserves</b>
Sovereign	2%	8%	22%	100%
State owned	50%	50%	43%	0%
Private	48%	42%	35%	0%

**Scenario 3: Reform**

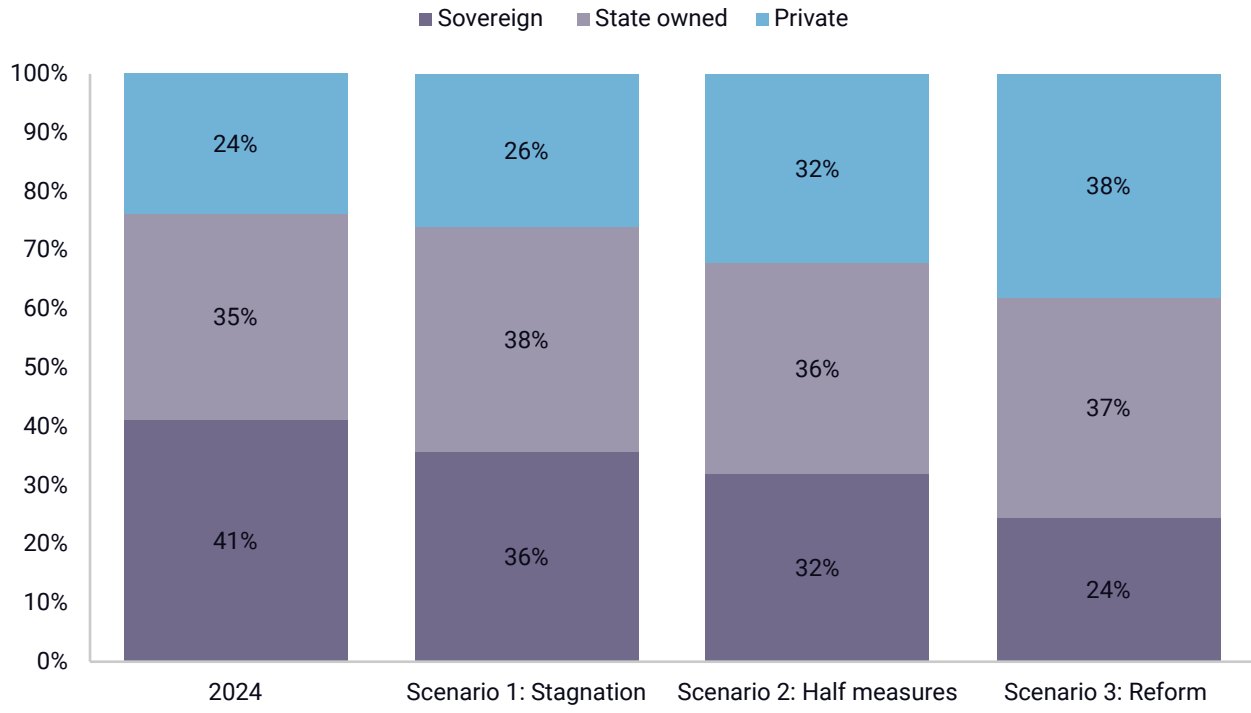
	<b>Direct Investment</b>	<b>Portfolio Investment</b>	<b>Other Investment</b>	<b>Reserves</b>
Sovereign	1%	7%	20%	100%
State owned	47%	47%	42%	0%
Private	52%	46%	38%	0%

Source: Author estimates and projections.

APPENDIX FIGURE 4

**China's external assets by ownership, 2024 vs. 2030 scenarios**

Percent of total



Source: Author estimates and projections.

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# The Future of China's Financial Statecraft

Scenarios for Economic Growth and  
External Financial Position Through 2030