

# **The External Wealth of China: An Investigation from the International Balance Sheet Perspective**

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## **Summary**

Flow data does not always show what is happening in International financial integration. Using Lane and Milesi-Ferretti's (2006)<sup>1</sup> rich data-set of external positions for 145 countries from 1970 to 2004, this paper looks at the changes in the external balance sheet of China to examine how balance sheet analysis is useful as a tool for historical understanding and to examine how it can help in an analysis of possible future vulnerabilities. Starting from a global overview, the study looks at China from a comparative angle vis-à-vis the world and the rest of Asia, and finally focuses on the evolution of the external position of China.

Although the investigations are preliminary in nature, this paper demonstrates how China has emerged as an important net creditor in an increasingly integrated world and suggests that as China becomes more important globally as a net creditor, the balance sheet analysis of trends can be an important tool to explore the important interrelationships between trade partners. The paper also examines the period during the Asian crisis, when China played an important role in not changing its exchange rate. The paper also examines the real total rates of return on external assets, and the risk management of balance sheets, which have become increasingly more important over time. It is hoped that this paper will stimulate more academic and policy analysis in this growing area of policy importance.

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<sup>1</sup> Lane, Philip R. and Gian Maria Milesi-Ferretti (2006), "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970-2004," IMF Working Paper No.06/69, IMF, Washington.