

Macro Roundup Article

Headline: [Mapping Chinese Capital Flight via the Sinaloa Cartel](#)

Article Link: <https://theovershoot.co/p/mapping-chinese-capital-flight-via>

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Tweet: [.@M_C_Klein argues that adjusting for understated exports and missing investment income, China's Q1 2024 current account surplus is probably about 3.5x the official numbers, implying capital flight of around \\$500B per year.](#)

Summary: The gap between the GACC and SAFE estimates of China's trade balance in goods is large and unusual, but it is not the only questionable feature of China's balance of payments in recent years. Most of the major central banks have raised interest rates sharply since the end of 2021, which should have boosted the income that Chinese residents earn on their foreign investments. China's foreign assets are mostly either reserves or bank loans, which means that their yields should more or less float in line with market rates. SAFE provides no details on Chinese foreign investment income, which makes it impossible to determine the effective yields on specific types of assets, but historically, there was a close relationship between Chinese foreign investment returns and the yield on the 5-year U.S. Treasury note. That relationship has broken down, with implied yields now lower than ever. That has depressed foreign investment income and the current account balance in ways that I (and others) find implausible. Combine this missing investment income with the missing trade surplus in goods, and the estimates of capital flight start to make a lot more sense.

Related Articles: [Anatomy of Capital Flight in China...](#) and [China's Unremitted Export Earnings and The Rise & Fall of Foreign Direct Investment in China](#)

Primary Topic: China

Topics: China, Financial Markets, GDP, Op-Ed/Blog Post

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