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The current world economic situation and its impact on China's foreign exchange and foreign investment

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Abstract. In 2023, the world economy shows clear growth divergence and complex changes driven by technology. The United States economy is showing strong resilience, but its growth is still affected by inventory movements. In contrast, the economies of the euro area and Japan face serious challenges, while some emerging economies, such as India and Vietnam, show signs of a positive recovery. Meanwhile, prices in major economies generally rose, international trade improved slightly and financial markets picked up. In the coming period of time, the world economy is likely to be in the process of bottoming out and bottoming out, will continue to affect China's foreign trade and foreign investment fundamentals, China should overcome the risks and challenges, enhance confidence, increase policy support, and make every effort to create an environment conducive to the development of an export-oriented economy, and actively tap the new advantages of industrial competition, and to promote China's sustainable development of the economy.

Keywords: World economy, risks and challenges, foreign exchange and foreign capital.

1. Introduction

The current world economic situation is manifested in three areas: first, economic globalization. Trade liberalization, the internationalization of production, financial globalization and the globalization of science and technology are the main forces driving the globalization of the world economy, and these trends have accelerated the development of the global trade in goods, services and technology, facilitated the formation of the world's multifaceted trading system, and promoted the growth of international trade; and secondly, the multi-polarity of the world. After the collapse of the Soviet Union, the United States is no longer the sole superpower, and countries and alliances such as the European Union, Japan, China and Russia play an important role in international and regional affairs. Third, the international landscape has changed. At present, international relations show a post-cold war "new cold war" situation, this change in the world economy and China's foreign exchange and foreign investment has far-reaching impact. The development of the global economy, including economic growth, inflation, interest rates and other factors, will affect the foreign exchange market investor sentiment and expectations, which in turn affects the volatility of the exchange rate and the trend of the global economic situation is complex, in which the dollar has shown a strong resilience [1], the euro area and Japan are facing serious challenges, but some developing countries are in good shape, in response to this phenomenon, this paper summarizes the global economic situation in 2023 by summarizing the world's economic situation in 2023. , this paper summarizes the characteristics of the world economic operation in 2023 and analyzes the factors affecting the trend of the world economy through these characteristics, China plays an increasingly important role on the world stage, so this paper chooses to explore the impact of the world economy on China's foreign foreign exchange and give countermeasure suggestions from the perspective of China, to promote the development of China's economy, which will in turn provide references for the sustainable development of the global economy.

2. Main features of world economic performance in 2023

2.1. Increased divergence in world economic growth

In the U.S. and Europe high inflation and the U.S. and European central banks continue to raise interest rates under the impact of global economic growth into a downturn, the International Monetary Fund forecasts global GDP growth rate of 3%, as shown in Figure 1，the United States showed a strong resilience, the first three quarters of the GDP ring in the first three quarters of 2023 folded year-on-year growth of 2. 2%, 2. 1%, 4. 9%, the rate of growth to the highest since the fourth quarter of 2021, but inventory However, changes in inventories contributed 1.3 percentage points to GDP growth, much higher than the historical average, casting a shadow over the future recovery. The euro zone economy is struggling, with year-on-year GDP growth of 1.3%, 0.6%, and 0.0% in the first three quarters of 2023, a decline for seven consecutive quarters since the first quarter of 2022; Germany's economy has fallen into negative growth again after the first quarter, and the economies of the Czech Republic, Estonia, Luxembourg, and Hungary have had several consecutive quarters of negative economic growth. Japan's economic recovery is difficult and zigzagging, in the first three quarters of 2023, the GDP growth rate was 2.5%, 2.2%, 1.5%, and 1.2%, 0.9%, 0.7%, and -0.7%, respectively; in the third quarter, the expansion of domestic demand slowed down, which is the main reason for the negative growth of the GDP. The recovery of some emerging economies shows a positive trend. in the third quarter of 2023, the GDP of India, Vietnam, and Indonesia grew by 7.6%, 5.5%, and 4.9%, respectively, year-on-year. Overall, the world economic recovery is still uneven and insufficient.

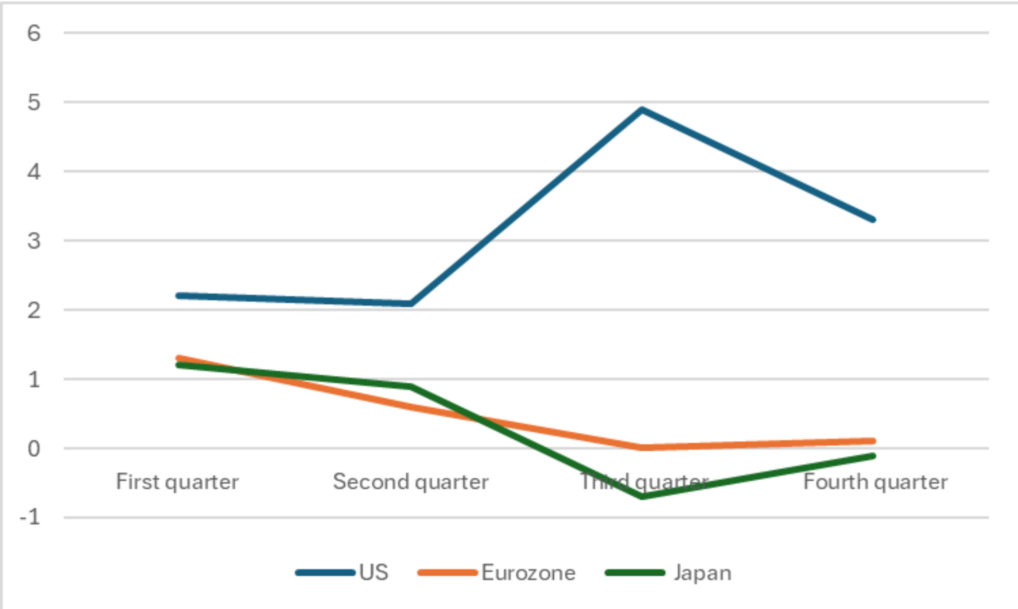

Figure 1. GDP growth rates of different economies, 2023.

2.2. Disruptive technologies bring about profound and complex changes

With the Fourth Industrial Revolution and the emergence of new industries, businesses and models based on emerging technologies, the disruptive impact of the increasingly widespread use of Artificial Intelligence (AI) on the world's economy and society is beginning to take hold [2]. Enterprises are scrambling to apply every new breakthrough in AI to their production, from simultaneous interpretation, personal assistants and drones to surveillance devices and lethal autonomous weapons.[2] . At the same time, there are serious concerns about AI entrenching social discrimination, triggering mass unemployment and violating the norms of war. International concerns about AI are growing as machines capable of generating autonomous minds interact with global commerce, finance and warfare. This frantic race could lead to disaster if the major powers do not find ways to limit the impact of AI. Currently, Chat GPT has become the world's fastest-growing AI product in terms of the number of users, and is driving breakthroughs in generative AI tools in the fields of image, video, programming, and speech, etc. It remains to be seen whether Chat GPT is an enemy or a friend to humanity.20 In October 2023, China put forward a timely Global Initiative for Artificial Intelligence Governance (GIAG), which emphasized that all countries should strengthen information exchange and technical cooperation in the field of AI governance. In October 2023, China put forward the Global AI Governance Initiative, emphasizing that countries should strengthen information exchange and technical cooperation in the field of AI governance, work together to prevent risks, form an AI governance framework and standard norms with broad consensus, and continuously improve the safety, reliability, controllability, and fairness of AI technology.

2.3. New changes in the international order

Along with the evolution of the international landscape, there has been a gradual shift in international power.2023, developing countries are increasingly participating in global governance, and their influence on and shaping of the international order has been further enhanced.2024 In March, China's successful mediation between Saudi Arabia and Iran, the arch-rivals in the Middle East, which led to the resumption of diplomatic relations between the two countries after seven years of diplomatic relations, has attracted worldwide attention. The resumption of diplomatic relations between Saudi Arabia and Iran has given a strong impetus to the reconciliation process in the Middle East, rewritten the political map of the Middle East, and promoted unity, peace and cooperation in the region, while in July, the leaders of the SCO member states approved the granting of membership status to Iran, further strengthening Iran's influence. Iran formally became a member, further strengthening the organization, which is mainly composed of developing countries; in August, during the 15th meeting of BRICS leaders held in Johannesburg, South Africa, the BRICS cooperation mechanism achieved a historic expansion of its membership, with Saudi Arabia, Egypt, the United Arab Emirates, Argentina, Iran, and Ethiopia invited to join the BRICS family; and in September, members of the Group of Twenty (G20) reached an agreement to invite the African Union (AU), the African Union (AU) and the United States of America (UAE) to participate in the BRICS family during their summit meeting in New Delhi, India. reached an agreement to invite the African Union (AU) to become a full member. The AU has become another regional organization member of the G20 after the EU, which will help Africa make its voice heard more loudly on the world stage. With the increasing participation of developing countries in global governance and their growing influence on the international order, Western countries have frequently advocated the so-called "rule-based international order" in recent years. However, the core of the "rules-based international order" is not the rules of the United Nations, but the rules that can ensure the interests of the West, which are essentially the rules of hegemony, and the rules of unilateralism that "only allow me to win, and not allow you to win". On the contrary, with regard to the rules of the United Nations, the Western countries have always taken "pragmatism" as the guiding principle, using them when they are in line with the rules and abolishing them when they are not.

2.4. Fragmentation of the world economy and increased regional economic integration

In the latest World Economic Outlook report issued by the International Monetary Fund, the word "fragmentation" is mentioned no less than 172 times, whereas five years ago it was mentioned only once. This shows that the phenomenon of the "fragmentation" of the world economy has attracted the great attention of this important international economic organization [3]. The report points out that if countries were to break up into blocs that trade only among themselves, it could reduce global annual gross domestic product by as much as 7 per cent. The phenomenon of "fragmentation" of the world economy runs counter to the tide of economic globalization.2023 In 2023, the United States, out of the strategic considerations of safeguarding its own hegemony and curbing China's development, is engaged in the so-called "near-shore outsourcing" and "friendly-shore outsourcing", seeking to "outsource" the supply chain. The United States, out of strategic considerations of safeguarding its own hegemony and containing China's development, has engaged in the so-called "near-shore outsourcing" and "friendly-shore outsourcing", seeking to "DE-Chine seize" the supply chain, artificially fragmenting the global production and supply chain, undermining the rules of the international market and the economic order, and causing operational difficulties and economic losses to enterprises in various countries, including China and the United States. It has been reported that United States direct investment in China has fallen from a peak of $20.9 billion in 2008 to $8.2 billion in 2022, the lowest point in 18 years.

On the other hand, there was a positive side to the development of economic globalization. in 2023, in Asia, the Regional Comprehensive Economic Partnership Agreement would enter into full force for the 15 signatory countries, and more than 90 per cent of international trade in goods would gradually achieve zero tariffs, further promoting trade and investment liberalization and facilitation in the Asia-Pacific region. In addition, the China ASEAN FTA 3.0 negotiations have been launched, which is expected to further reduce tariffs and non-tariff barriers, enhance the level of trade and investment liberalization and facilitation, and further promote regional economic integration [4].

2.5. Financial markets have picked up

Stock markets in major economies continued to improve. With expectations of continued improvement in economic fundamentals, the U.S. stock market bottomed out since November 2023, reaching its highest point of the year[5]. 2023 as a whole, the Dow Jones Industrial Average, NASDAQ, and S&P 500 rose 13.7%, 43.4%, and 24.2%, respectively. The performance of the stock markets of other economies also improved, during the same period, the German DAX index, Nikkei 225 index cumulative rise of 20. 3%, 28. 2%. Treasury yields in major economies have come down. With the decline in expectations of interest rate hikes in major economies, the U.S. 10-year bond yield oscillated down to 3.8%, while the 2-year and 10-year bond yields are still inverted, the difference narrowed to 40 basis points; Germany, France and the two 10-year bond yields were down to 2.0%, 2.6%, respectively, near the United Kingdom 10-year bond yield fell slightly to 3.5% near the United States. Currency exchange rates of major economies continued to oscillate. Dollar exchange rate fluctuation, the dollar index in early October 2023 reached the highest value of 107.35 after the shock downward, as of the end of 2023 fell to 101.38. euro against the dollar depreciation pressure has been reduced, 2023 annual cumulative appreciation of 3.1%; yen continued to weaken the Japanese yen against the dollar rate of cumulative depreciation of 7.0%.

3. Factors affecting the trend of the world economy in 2024

3.1. Monetary policy faces a turning point

When the major economies will start their interest rate cut cycles will be an important factor influencing the direction of the world economy in 2024. On the one hand, market expectations for interest rate cuts in 2024 are growing. Morgan Stanley predicts that the Fed will cut interest rates significantly in the next two years as inflation cools. But on the other hand, the Fed's stance on rate cuts is more subtle. In the third consecutive suspension of interest rate hikes, the Fed also retains the opinion that "once the level of inflation rises, interest rates will be raised". Coupled with the recent strong performance of the U.S. economy, does not rule out the possibility that the Fed decided to continue to raise interest rates. The ECB suspended interest rate hikes for 2 consecutive times, with key officials stating that interest rates have reached or are close to their peak, and the market generally expects a cycle of interest rate cuts to begin in 2024. Considering the greater risk of recession in several economies, the ECB is also likely to start cutting rates earlier than the Fed. The Bank of Japan has decided to maintain its large-scale easing monetary policy and delay the removal of negative interest rates. From the theoretical and practical point of view, there is a lag of more than one year in the impact of monetary policy on the real economy, and the high interest rates in 2023 will continue to constrain production, consumption and other economic activities in 2024, but of course, the financial market's response to the interest rate cuts is still direct and rapid. At the same time, it is difficult to synchronize and coordinate monetary policy adjustments across countries, which will bring new risks such as exchange rate volatility and capital flows[6]. On the whole, even if the monetary policies of major economies turn loose again in 2024, it will be difficult for the world economic recovery to be effectively boosted.

3.2. Supply constraints weaken economic recovery momentum

First, the recovery of industrial production still needs time. U.S. industrial production index growth trend is unstable, after 2023 July, August two months rebound, and for three consecutive months of year-on-year decline; Eurozone industrial production index downward pressure further increased in October fell 6. 6%; Japan's industrial production index in October after a slight rebound, in November fell 1. 4%. JP Morgan Chase global manufacturing purchasing managers index (PMI) for 15 consecutive months in the below of boom-or bust line, the United States, Europe, Japan and other major economies manufacturing PMI for many months in the below of boom-bust line. Due to labor supply constraints, coupled with demand has not yet fully recovered, manufacturing recovery is expected to be a long way to go. Second, corporate bankruptcy increased significantly. As of November 2023, 591 companies in the United States have filed for bankruptcy, and the number of bankruptcy filings for the year is expected to be only slightly lower than the 2020 level. Similarly, the number of corporate bankruptcy filings in the European Union in the third quarter, while down 5. 8 percent from a year earlier, is still higher than pr-epidemic levels. Due to high inflation, high interest rates, the termination of government subsidies and other factors, a large number of bankruptcies of enterprises in the United States and Europe is expected to continue, casting a shadow on the recovery of global supply. Third, anti-globalization continues to disrupt the global supply chain. The United States has introduced subsidies for new energy vehicles, restricting the use of battery components and key mineral resources produced by "foreign entities of concern" in the automobile manufacturing process. The European Union has launched a countervailing investigation into new energy vehicles produced in China. These policies will lead to reduced productivity and higher production costs globally.

4. Impact of the economic situation on our foreign exchange foreign capital

From the point of view of foreign trade, as an externally-oriented economic power, weak external demand and a more complex and severe external environment continue to drag down the recovery of China's foreign trade. On the one hand, foreign trade pressure directly impact on China's economic growth, stabilizing the momentum of economic recovery increased pressure[7]. Together with the United States to increase anti-dumping and countervailing investigations, the EU carbon border adjustment mechanism (CBAM) transition implementation rules come into force, some of our advantageous products and high carbon emission products exports will be further restricted. On the other hand, stabilizing foreign trade enterprise confidence increased difficulty. Recently, by the weakening of the renminbi exchange rate, some countries tend to be cautious attitude towards China's trade and other impacts, foreign trade enterprises confidence is difficult to boost, the cost is difficult to cover, or will hold more wait-and-see psychology. With the gradual recovery of the global economy, liquidity tends to ease, 2024 my foreign trade pressure will be reduced, coupled with the low base effect of 2023, the annual performance will be better than 2023, is expected to be comparable to 2022.

In terms of the utilization of foreign investment, global cross-border investment is in the doldrums, and developed economies are pushing for the return and transfer of capital, restricting our country's ability to attract foreign investment with greater vigour[8]. The United States has taken the lead in utilizing the means of foreign investment review, restricting our cooperation with the United States semiconductor and other emerging areas of enterprise, and increasing the blockade on our country, not only to prevent the transformation and upgrading of China's industries, but also to promote the transfer of existing industries out of the country. At the same time, the United States and the West to increase the pulling together of developing countries, help developing countries to undertake low-end industrial links, especially textile and clothing, electronic information, processing and manufacturing, with the intention of excluding our country in the international economic and trade cooperation network. But also need to see, China's large market size advantage of foreign capital attraction is incomparable, "invest in China" will be the general trend.

From the industrial chain supply chain, our country in the key links by the United States and the West "neck" risk is not reduced. Although China's share of the global manufacturing industry is close to 30%, in the semiconductor, new energy, bio-medicine, equipment manufacturing and other areas occupy a larger proportion of the market share, but we must see is that our country in the above areas there are still more obvious key raw materials, technology and equipment to the United States and the West rely on the problem. Once the U.S. and the West through export controls, restrictions on investment, trade sanctions and other ways to China's "neck", China's share of the global industry will be forced to decline, coupled with the U.S. and the West to promote the "manufacturing industry back to the" "near-shore outsourcing " "friendly shore outsourcing" and other policies, our country in the global industrial chain supply chain by the United States and its allies and partners to replace the probability will rise.

5. Recommendations for countermeasures

5.1. Increased policy support

Promote the coordination and innovation of pilot free trade zones (ports), state-level new zones, inland open economy pilot zones, pilot zones for key development and opening up along the border, and comprehensive demonstration zones for expanding and opening up of the national service industry, so as to form a regional pattern that guides the high-quality development of foreign trade and foreign investment, and to improve the quality and level of trade and investment cooperation. Accelerating the cultivation of new dynamics in foreign trade, expanding trade in intermediate goods, trade in services, digital trade and cross-border e-commerce exports. Comprehensively abolish restrictions on foreign investment access in the manufacturing sector, liberalize market access in telecommunications, medical services and other service industries, and attract more countries to share China's mega-market opportunities, systematic opening-up opportunities, and opportunities for deepening international cooperation [9].

5.2. Creating an outward-looking environment

We will intensify reform and opening-up, improve the basic systems of the market economy, such as the protection of property rights, market access, fair competition and social credit, and continue to build a market-oriented, rule-of-law and internationalized business environment. We will persist in opening up to the outside world on a wider, broader and deeper scale, continue to liberalize market access for foreign investment, and expand the scope of incentives for foreign investment. We will implement national treatment for foreign-funded enterprises, guarantee equal participation of foreign-funded enterprises in government procurement, bidding and standard-setting in accordance with the law, ensure that foreign-funded enterprises enjoy equal access to supportive policies, and increase the protection of intellectual property rights and the legitimate rights and interests of foreign investment. Support foreign capital to increase investment in medium and high-end manufacturing, R&D, modern services and other fields. It will strengthen dialogue and exchange activities with foreign-funded enterprises, relevant chambers of commerce and international organizations such as the World Economic Forum, and build the "Invest in China" brand [10].

5.3. Developing new competitive advantages in industry

Continuously optimize the allocation of production factors, accelerate the transformation of old and new kinetic energy, continuously improve the basic capacity of industries, promote the optimization and upgrading of traditional industries, cultivate new industries, new modes and new kinetic energy with international competitiveness, and establish a modernized industrial system with high quality, high efficiency and innovation. It will implement actions for the high-quality development of key industrial chains in the manufacturing industry, strengthen quality support and standard leadership, and enhance the resilience and safety level of the industrial chain supply chain. Seize the opportunity of the new round of scientific and technological revolution and industrial change, and accelerate the development of artificial intelligence. It will build several strategic emerging industries such as bio-manufacturing, commercial spaceflight and low-altitude economy, open up new tracks for future industries such as quantum and life sciences, and widely apply digital and green technologies to accelerate the transformation and upgrading of traditional industries.

6. Conclusions

The global economy in 2023 shows obvious differentiation, with major economies showing different paces in economic growth, technological innovation, and international order restructuring. Although the United States has demonstrated strong economic resilience, it faces challenges such as changes in inventories, and uncertainty about future recovery remains. The euro zone economy is struggling, with many countries experiencing negative economic growth, requiring more internal and external stimulus for recovery. Meanwhile, emerging economies such as India and Vietnam are showing positive signs of recovery, demonstrating their growing importance in the global economy.

In terms of technological innovation, the rapid development of emerging technologies such as artificial intelligence is profoundly affecting the global economy and social structure. However, the risks and challenges in the process of technology application should not be overlooked, including concerns about social fairness and ethical responsibility, which require the international community to make joint efforts to formulate appropriate governance frameworks and standards to ensure the safety and sustainability of technological development.

With regard to the international order, the growing influence of developing countries in global governance is important for shaping the future international order and promoting global economic growth. The United States Government has sought to assert its global "leadership", which has been reflected in the strengthening of the Trans-Atlantic and Trans-Pacific Alliances. Militarily, NATO was "resurrected" and significantly strengthened after the Ukraine crisis, while cooperation with Indio-Pacific partners was enhanced. Economically, the U.S. has promoted the establishment of a new Cold War trade bloc encompassing the advanced economies of the U.S. and Europe through the Indio-Pacific Economic Framework and the U.S.-European Commission on Trade and Technology to form a common trade, financial, and economic framework for "non-market economies". They have formed a common trade, financial, scientific and technological policy towards "non-market economies", and have stepped up their efforts to force developing countries to choose sides. The international situation has been characterized by the emergence of danger and chaos due to changes, and the international order has entered a tortuous process of difficult reshaping. Against this backdrop, China still managed to show a positive trend. In the foreign exchange market, according to the balance of payments, the foreign exchange market has been running steadily, showing strong resilience, and the scale of foreign exchange settlement and sales by banks has been relatively stable, reflecting the healthy state of the foreign exchange market and strong foreign exchange capital absorption capacity. In terms of foreign investment, with the continued recovery of China's economy and the promotion of foreign policy, foreign investment in China in 2023 maintained a net inflow pattern in general, as shown in the scale of trade surplus in goods reached the second highest in the past years, the service trade operated in a more balanced manner, and the net inflow of foreign direct investment of equity nature for the whole year as well as the net inflow of investment in securities showed net inflow. In 2023, the world economy provided a good opportunity for the stability of China's foreign exchange market and the net inflow of foreign investment. The world economy in 2023 provided favorable support for the stability of China's foreign exchange market and the net inflow of foreign investment, further consolidating China's position in the global economy.

Looking ahead to 2024, the global economy faces many uncertainties and challenges. The direction of monetary policy, the easing of supply constraints and the restructuring of the global industrial chain will be key factors affecting the economic trend. As an important participant in the global economy, China needs to further optimize its policy support, improve the external environment, and accelerate industrial structure upgrading and technological innovation in order to cope with the complex and volatile international economic situation and achieve high-quality economic development and comprehensive opening up.

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