

# A Study on Redefining Balance of Payments from a Sustainable Development Perspective

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**Abstract:** *The existing balance of payments statistical definitions and indicators may not be conducive to the sustainable development of the country, especially for countries that export mainly depletable resource products or primary products. The comparative disadvantages in terms of technology and system of resource utilization lead some developing countries' condition of balance of payments to be detrimental to their national sustainable development. Thus, the article suggests to reformulate the balance of payments statistics: categorizing balance of payments trade and services from the perspective of sustainable development; reforming commonly used balance of payments statistics indicators such as export exchange costs. The adjusted balance of payments statistics should be able to provide correct information for international economic transactions and lead governments to make decisions that are conducive to their sustainable development based on such correct information.*

**Keywords:** *Sustainable development, Balance of payments, Depletable resources*

The purpose of balance of payments statistics is the same as that of income statistics, to serve as a guide for wise behavior, which is the main meaning of balance of payments statistics. According to the existing balance of payments theory, we can perform a balance of payments analysis. Therefore, according to the theory of sustainable development, the balance of payments requires a new explanatory analysis.

## 1. The Existing Definition of Balance of Payments is not Conducive to the Sustainable Development of Countries

The present definition of balance of payments can be traced back to the research of James Meade (1951). According to Meade, a country's balance of payments can be divided into autonomous transactions and accommodating transactions depending to the nature of the transactions, and the imbalance of a country's autonomous transactions is a country's "actual" balance of payments imbalance. In theory, it makes sense to distinguish between autonomous and reconciling transactions, but in practice it is difficult to solve properly the problem of which transactions are autonomous and which are accommodating. This has led to criticism of Mead's balance of payments equilibrium, but it still has a wide impact. Countries attach great importance to the analysis of balances (Freund, 2005), especially the current account balance (Chen et al., 2019; Sun, 2014).

The net current account balance indicates net investment or net lending/borrowing abroad by an economy relative to the rest of the world. A current account surplus, implies that the economy (country) provides financing abroad, while a current account deficit represents foreign financing to the home country. There is a reciprocal relationship between domestic investment savings and imports and exports of goods and services. The development of trade leads to the full utilization of productive resources in each country and allows countries with different factor endowments to obtain exchange benefits, and also has a multiplier effect. The size of a current account surplus or deficit, surplus or deficit, is related to the health of a country's savings and investment position. The current account position is used by economists as a barometer of the need to regulate the balance of payments (Gao, 2010; Li and Ren, 2013).

(1) Balance of payments surpluses in exchange for depletable resource exports may be detrimental to the country's sustainable development

According to the existing theory of balance of payments analysis, some oil exporting countries, such as those that rely on the depletion of their natural capital to earn income, can see in their balance

of payments a trade surplus caused by the export of goods that deplete natural capital, but this surplus is only a superficial surplus, the country is actually in a trade deficit. This deficit is caused by the consumption of natural capital by exported goods and the direct transfer of natural capital to foreign countries, which is not reflected in the balance of payments, but is shown as a surplus in the balance of payments statistics today.

(2) Balance of payments surpluses in exchange for primary and resource products may be detrimental to the country's sustainable development

Most of what developing countries can trade in the international market are primary and resource products, and this international division of labor status will, on the one hand, widen the trade surplus and, on the other hand, turn developing countries into net exporters of resources. Although developing countries can get back more foreign exchange and promote GDP growth by making more resource exports, it is obviously not very beneficial to the sustainable development of developing countries.

For example, some developed countries do not raise sheep themselves, but finance China to raise, get cashmere. This is the so-called "first-world enjoyment, second-world spinning, third-world sheep". As a result, overgrazing has caused the destruction of vegetation and soil erosion in China's grasslands. This aggression was carried out in the name of cooperation, development and trade, and its disasters and traumas lasted longer than war, posing a great threat to national security and survival.

## **2. Comparative Disadvantages in Technology and Systems for Resource use Lead to Impaired Sustainable Development in Developing Countries**

Due to the backwardness of technology and institutions, developing countries may only be at a crude level for resource development and use. Not using resources fully and efficiently is actually a waste, so that it may require more investment to create the same amount of GDP. In particular, the kind of countries with high energy-consuming and inefficient industries as the pillars of development, in order to survive, vigorously develop production, the more GDP is created, the stronger its damage to the ecological aspects of the environment, the less social welfare of the country, which is obviously not conducive to the sustainable development of developing countries.

As developing countries grow economically, the more specialized their participation in the international division of labor and the more dependent they become on developed countries, the less independent their governments become in making policies and the less capable they become in implementing domestic policies, even if they can no longer follow their own independent wage systems, different interest rate policies, full cost pricing policies, population control policies, and the treaties they have signed agreeing to take on the task of protecting the global environment. That way, the ability to provide a public good like sustainable development domestically becomes even weaker.

Of course, developing countries can follow the path of polluting first and treating later, but some changes are irreversible, and ecosystems that undergo extreme degradation can no longer be restored and are the most serious of the environmental losses, meaning that society will bear the long-term costs of them.

In conclusion, due to technology and international division of labor, developing countries have unaffordable opportunity costs in the pursuit of sustainable development and are at a great disadvantage, which is a reflection of the contradiction between sustainability and development in international economic relations.

## **3. Reprogramming Balance of Payments Statistics**

(1) Categorization of balance of payments trade and services from the perspective of sustainable development

We should separate the exports of depleting resources in the balance of payments statistics, so that countries can filter out this part when doing balance of payments analysis, and make those countries that export depleting resources realize that although their trade income increases, they also pay a very serious price, so that it is not easy for policy makers to make incorrect strategies due to perception errors. Therefore, the introduction of a special classification for exports of depleting resources will change the balance-of-payments analysis in the direction of favoring sustainable development.

(2) Reform of certain commonly used balance of payments statistical indicators

Accordingly, the relevant balance of payments statistical indicators should be adjusted accordingly. For example, the indicator of export exchange cost.

$$\text{export cost in terms of foreign exchange} = \frac{\text{Total cost of goods for export(Exporting country currency)}}{\text{Export sales of foreign exchange earnings(U.S. Dollar)}} \quad (1)$$

This indicator itself is flawed. The concept of purely exporting foreign exchange should be changed, the purpose of exporting for foreign exchange is not just to exchange foreign exchange, the purpose is to exchange for foreign goods and services resources represented behind the foreign exchange, exchange for foreign exchange means that we exchange for the purchasing power in the international market, to obtain the freedom and power to exchange for the physical and service resources of other countries needed by our country. Otherwise, if the export of U.S. dollars (or other settlement foreign exchange) does not have the corresponding physical resources to support, in the international market with the exchange of foreign exchange cannot buy back foreign goods and services, or due to the depreciation of the foreign exchange to buy back less goods and services, then the export of foreign exchange is equivalent to the country's physical and service resources in exchange for a bunch of "currency" called. The cost of printing paper money is very low, meaning that the U.S. is using its status as a core currency provider to trade the price of printed goods for physical resources such as oil, almost for nothing. Such exports are clearly not in the national interest and do not contribute to the sustainable development of the country.

In order to achieve the overall optimal resource allocation, we can try to increase the total cost of exporting the numerator of this indicator, i.e., to include the replacement cost or shadow price of non-renewable resources, and for renewable resources should be treated with regeneration cost.

#### 4. Adjustment of Balance of Payments Related Policies

We aim to make the adjusted balance of payments statistics provide the right information for international economic transactions decisions and lead governments to make decisions based on this correct information that are beneficial to the sustainable development of their countries.

(1) Transferring state funds used to subsidize activities that harm the environment to subsidize activities that are environmentally constructive. The development of production led by the domestic market, thus maximizing specialization in accordance with the country's comparative advantage, allows the participation of resources in international trade only in the context of clearly efficient production. Localization of production and distribution allows exporting less capital and at the same time consuming fewer natural resources. Specifically, the state should not subsidize mining but recycling, fossil fuels but climate-friendly energy sources, urban car-dependent transport systems but modern rail systems, etc(Brown, 2002).

(2) Replace Most Favored Nation (MFN) with Most Sustainable Development (MSD) national tariff treatment. Those countries that develop their resources, protect the environment, and develop their economies in a sustainable manner will be granted market access and priority access to international markets for economic activities. Countries that continue to harm people and pollute the land will be punished with high tariffs, causing them to re-internalize the savings they have made through social and economic shortcuts to countries that develop their economies in a sustainable way.

#### 5. Conclusion

To sum up, the balance of payments accounting should be greened. The arrangement of balance of payments items should be reformed and transactions should be re-categorized, with some of the natural capital that affects sustainable development being classified under the capital and financial accounts; on the other hand, the balance of payments should be re-measured so that the balance of payments accounting can indeed be adapted to the requirements of sustainable development and can serve as a guide for wise balance of payments behavior. In this way, economic growth and environmental protection can be reconciled in such a way that economic growth is achieved without compromising the natural resources and social living conditions on which it ultimately depends, making efficient use of natural resources, effectively curbing environmental damage, and obtaining maximum trade welfare.

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### Declaration of Competing Interest

The authors report no declarations of interest.

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