China’s announcement that it would ban independent travelers visiting Taiwan is generally seen as an attempt to influence next year’s presidential election by triggering discontent among businesses catering to tourists.

Perhaps Beijing has something additional in mind, such as preventing Chinese from witnessing a democratic election and becoming “contaminated” with the spirit of democracy.

The limited number of cross-strait exchanges China allows adds to the pressure of the travel ban.

People used to think that China, with its considerable trade surplus every year, was accumulating a substantial reserve of foreign capital. While China does hold about US$3 trillion in foreign reserves, US$1 trillion of that is owned by foreign businesses, which plan to use the money for investments, and another US$1.9 trillion is outstanding external debt, payable upon maturity.

In this light, China’s foreign reserves are not as ample as outsiders might think, nor can the country rest easy once foreign businesses start to pull out their capital.

More seriously, China’s trade surplus has been rapidly decreasing over the past few years. The *Economist* magazine even predicts that “China may soon run its first annual current-account deficit in decades.”

While China’s trade surplus is markedly shrinking, the country is also running a tourism deficit that has grown to the point of swallowing the whole trade surplus.

According to data from last year, Chinese spent 1.57 trillion yuan (US$223 billion) more on overseas trips than foreign tourists spent in China, forcing Beijing to implement measures to more tightly control how much Chinese tourists spend abroad. Banning individual travel to

Taiwan, which comes with additional political benefits, was obviously the Chinese government’s first choice.

Some people think that China could depreciate the yuan to alleviate the effects of US tariffs on Chinese exports, but depreciation would also accelerate the rate at which foreign businesses and rich Chinese withdraw assets from China. Such a depletion of China’s foreign reserves would put downward pressure on the yuan, creating a vicious circle — which is why Beijing does not know how to proceed from here.

Recent events shed light on China’s reasons for tightening restrictions on foreign exchange over the past few years. A rule that took effect on Jan. 1 stipulates that cash transactions or cross-border transfers by individuals in excess of US$10,000 are subject to control and management by the Chinese central bank.

For business transfers, the People’s Bank of China has stepped up inspections of the frequency and amount of transactions, ensuring that they correspond with the size of the company doing the transfers.

China’s ban on individual travel to Taiwan could be viewed as part of its overall approach to controlling foreign reserves, although it carries additional political benefits.

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Translated by Chang Ho-ming

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