

March 23, 2009

The seminar went on rather well, but due to technical reasons, the video and audio signals were not so smooth. However thanks should be given to our moderators and technicians who made this seminar happen.

I agree with Prof. Charles Adams of LKY School of Public Policy that the topics of US monetary policy and global imbalance should be separated. The topic of global imbalance is a politico-economic topic. The old beggar-thy-neighbor philosophy does not suit the Chimerica story. To make it simple, the story is about one country continues to sell products to his neighbor though his neighbor keeps putting his buying on credit.

The main reason behind China's fast built-up of foreign reserve is its industrial upgrading in 2000s, when the country quickly built up manufacture capacities of electronic products and cars; this made the country no need to spend its income to buy such goods of foreign made. However, the channels for Chinese to buy US high-tech products, which China needs whilst US does not want to sell, are limited.

Moreover, Chinese central government did not alter its policy of utilizing more foreign investment; all levels of Chinese governments were still keen to garner foreign investment during 2000s, when the country had already built up a considerable foreign reserve. In addition, this issue may be complicated since half of China's exports were made by foreign enterprises or joint ventures. These enterprises earned US dollars and then may saved them in RMB because they expected an appreciation of RMB.

I think the above factors need to be taken into account when talking about the global imbalance issue.

By: Chaoyang