Whither the Renminbi Post-Financial Crisis?
金融危机后人民币何去何从?

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Preview

- Introduction
- The Partial De-Coupling Hypothesis
- Is the Renminbi Under-Valued?
- The Role of a Reserve Currency
- The Benefits and Costs of Being the Issuing Country of a Reserve Currency
- Alternative Mechanisms for the Settlement of International Transactions
- Alternative Portfolio Assets for Official Foreign Exchange Reserves
- Concluding Remarks

Introduction

- Even though the financial sector in the United States and other affected economies seems to have been stabilized, and the stock markets have rebounded, the real economic recovery has been slow and halting. Many problems, such as the non-performing mortgage and credit card loans, the negative-asset position of many households, and the high unemployment rate, remain to be successfully tackled.
- It is unlikely that U.S. and European imports of Chinese and other East Asian goods will recover to their peak levels of 2007 within the next couple of years and perhaps even beyond. A persistent U.S. trade deficit vis-à-vis the World is no longer sustainable. China and East Asia cannot look to exports to the U.S. and Europe as a sustainable source of economic growth.

Introduction

- However, the Chinese as well as other East Asian economies appear to have weathered the global financial crisis reasonably well. The Chinese economy grew at 8.7 percent in 2009; other economies such as India and South Korea did well too.
- The fact that the Chinese and East Asian economies could perform reasonably well while the United States and parts of Europe were in deep economic recession lends support to the partial de-coupling hypothesis, which will be further discussed below.

Introduction

- One important insight to be gained from the global financial crisis is that China and East Asia can no longer rely on exports to the United States and Europe to lead and sustain their economic growth, and that China and to a lesser extent the rest of East Asia, can continue to grow on the basis of their own internal domestic demands and their trade with one another.
- Thus, we shall see a gradual shift in China from a policy of export promotion to a policy of promotion of internal demand, which is the only way to ensure sustained and sustainable economic growth in China. Chinese Premier WEN Jiabao has said publicly that China wants balanced trade with the rest of the World in the future.

Introduction

- However, if the United States manages to reduce her trade deficit with the World to zero, or even better, to achieve a trade surplus in the future, there will be a reduction at least in the growth of the supply of U.S. Dollars outside of the U.S. for the settlement of international transactions and for official foreign exchange reserve purposes. Unless alternative mechanisms for the settlement of international transactions are developed, the growth of international trade and capital transactions will be constrained by the lack of adequate international liquidity.

Introduction

- One alternative is for the world to return to the gold standard, so that countries settle differences in their transaction balances in gold.
- Another alternative is for one or more currencies to assume the role as principal reserve currencies (e.g., the Japanese Yen and the Renminbi). But then these countries must be willing to do so.
- What alternative mechanisms are possible without having one or more currencies becoming principal reserve currencies?
- What roles can China and the Renminbi play in terms of enhancement of the international liquidity (the international money supply) needed to support international transactions?

The Partial De-Coupling Hypothesis

- First we show that the Chinese and East Asian economies can be partially de-coupled from North America and Europe.
- East Asia is taken to mean the 10 ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) + 3 (China (including Hong Kong, Macao and Taiwan), Japan, and South Korea), that is, approximately, everything east of Bangladesh, west of the Pacific Ocean, and south of Russia (except for Mongolia and North Korea).

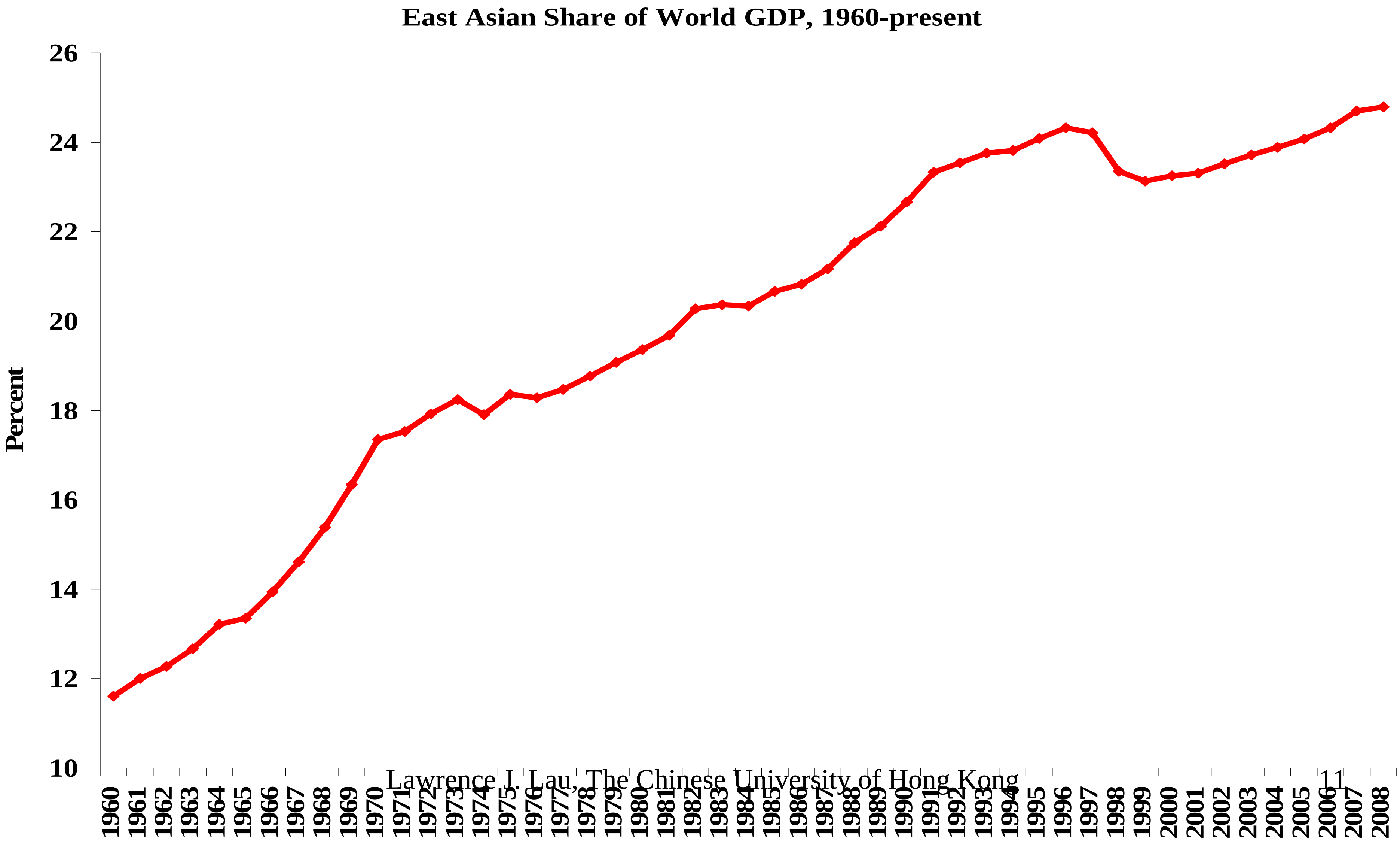
The Partial De-Coupling Hypothesis

- The "Partial De-Coupling Hypothesis" says that while East Asia is not immune from the effects of the economic recession in North America and Europe, it can nevertheless continue growing, albeit at somewhat lower rates, even with the reduction in import demands in North America and Europe.
- Partial de-coupling is a consequence of the economic center of gravity of the World gradually shifting to East Asia from the United States and Western Europe and within East Asia from Japan to China (but the shifts are still continuing and not yet completed).

The Shifting Economic Center of Gravity

- In the following charts, East Asian and Chinese GDPs respectively as percentages of World GDP since 1960 are presented. Both show very strong trends of growth over the past half a century.
- In 1960, East Asian GDP was just over 10 percent of World GDP. Today, East Asian economies account for approximately a quarter of World GDP, comparable to the size of the U.S. economy and that of the Euro Zone.
- Chinese GDP, despite its very rapid growth since the beginning of its economic reform in 1978, remains a relatively small 6.5 percent of World GDP, and only approximately a quarter of U.S. GDP.

East Asian Share of World GDP, 1960-present



China's Share of World GDP, 1960-present

The Shifting Economic Center of Gravity

- These figures and percentages are sensitive to the exchange rates used for the conversion, but the general conclusions below are reasonably robust to the exchange rates used.
- (1) The contribution of East Asia to total World GDP has increased significantly to approximately a quarter, approximately the same as the contributions of the United States and the Euro Zone;
- (2) Japan remains for the time being the leading economy within East Asia in both aggregate and per capita terms, but China (Mainland only) will likely surpass Japan in terms of aggregate GDP in another couple of years.

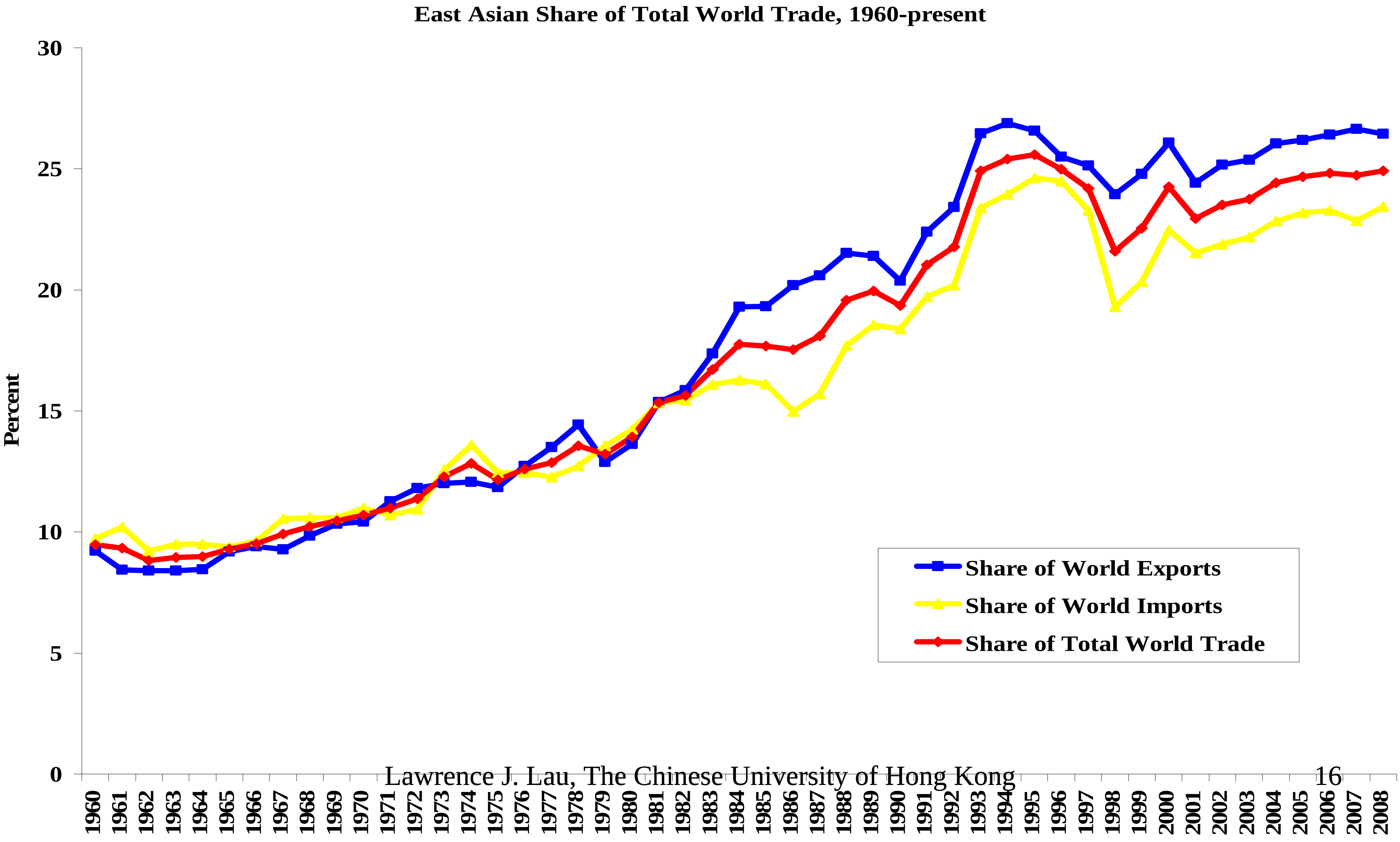
The Shifting Economic Center of Gravity

- Given the current trends in rates of economic growth, East Asia will surpass the United States in terms of aggregate GDP with China perhaps contributing the highest proportion of the total in a couple of years.
- This is what gives credence to the idea of partial “de-coupling” of the World economies—that the Chinese and East Asian economies can continue to do reasonably well despite the current economic recession in the U.S. and elsewhere.
- However, China, with its GDP accounting for only 6.5% of the World total, and East Asia are not large enough to turn around the whole World. The talk about G-2 is pre-mature.

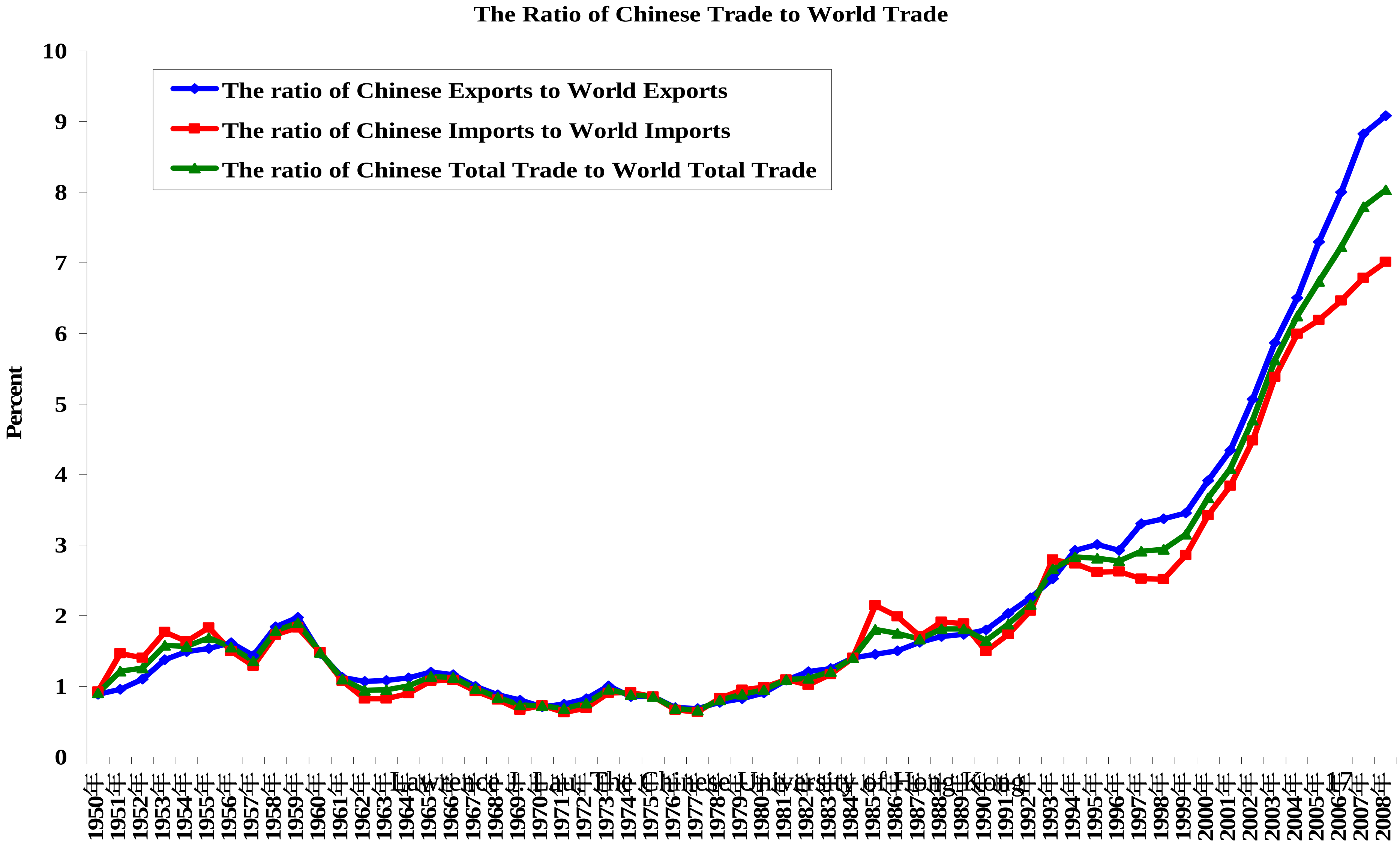
The Shifting Economic Center of Gravity

- East Asian shares of World exports, imports, and international trade have also grown from approximately 10 percent in 1960 to a quarter at the present time, paralleling the growth of East Asian share of World GDP (see the following chart).
- Similarly, Chinese shares of World exports, imports and international trade have also grown from approximately 1 percent in 1960 to approximately 10 percent at the present time.

The Rising Ratio of East Asian Trade in Total World Trade, 1960-present



The Ratio of Chinese Trade in Total World Trade, 1950-present



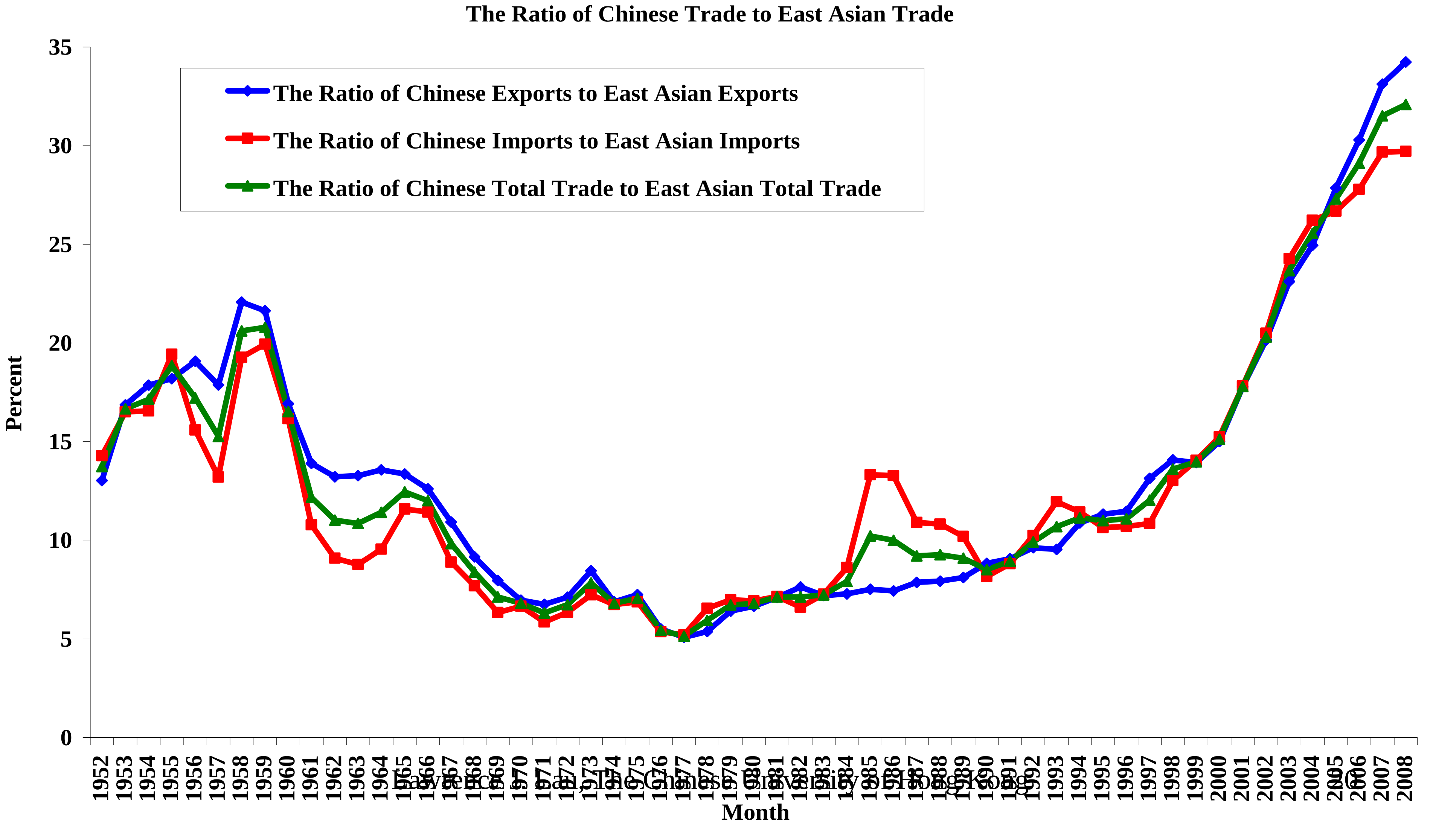
Rising Intra-East Asian Interdependence

- The emergence of the Chinese economy on the global market was the one most important new development during the past three decades.
- China has overtaken Japan to become the largest exporting country in East Asia. China has also overtaken Japan to become the largest importing country in East Asia and the most important export market for almost all East Asian economies and runs trade deficits vis-à-vis almost every other East Asian economy.

Rising Intra-East Asian Interdependence

- Japan has been China's largest trading partner for almost two decades and China became Japan's largest source of imports in 2002.
- Chinese international trade accounts for approximately a third of total East Asian international trade.

The Ratio of Chinese Trade in Total East Asian Trade, 1952-present



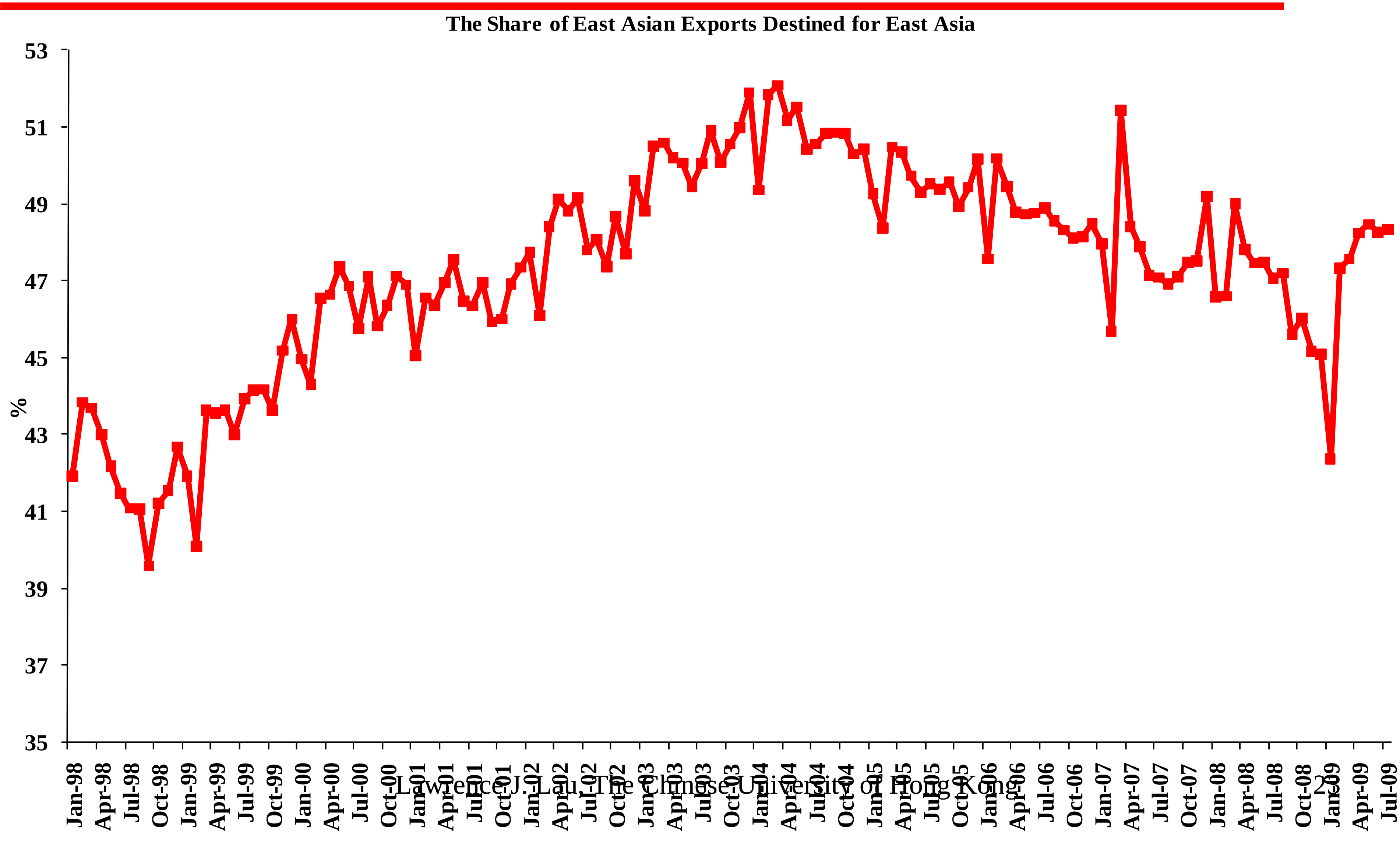
Rising Intra-East Asian Interdependence

- Because of the rapid economic growth of China and the rest of East Asia outside of Japan, and the demand and supply that such economic growth has generated, the East Asian economies now trade more with one another than with economies outside of East Asia, including the United States.
- By the late 1990s, approximately half of East Asian trade is among East Asian economies (see the following charts).

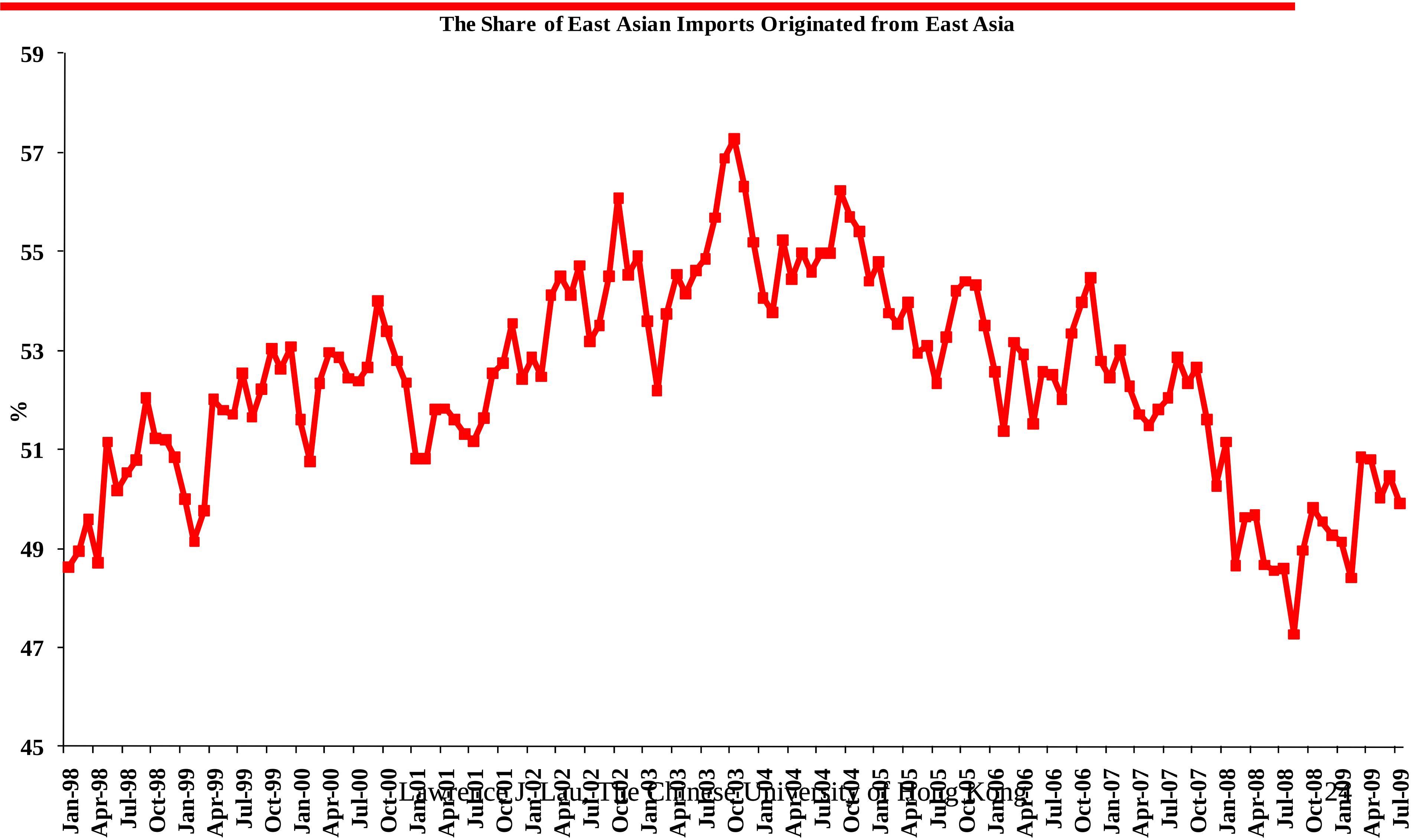
Rising Intra-East Asian Interdependence

- And while much of the trade consists of raw materials, components, and semi-finished goods which are further processed for exports to developed economies ultimately, much of it has also found itself into the final demands of the domestic markets.
- This is a sea change compared to say thirty years ago when most of the East Asian trade was between East Asia and the United States and Western Europe and not within East Asia itself.

The Share of East Asian Exports Destined for East Asia



The Share of East Asian Imports Originated from East Asia



Rising Intra-East Asian Interdependence

- Interdependence of the East Asian economies has been rising sharply over the years and East Asian dependence on the United States and Western Europe has declined. Interdependence of the East Asian economies will rise even further within the next five to ten years as East Asia becomes the only region with a high rate of economic growth.
- The ASEAN Free Trade Area as well as its variations (+1 (China); + 3 (China, Japan and South Korea)) are rapidly becoming a reality and should further enhance intra-East Asian economic interdependence. (There is also the more recently concluded Indo-ASEAN Free Trade Agreement.)

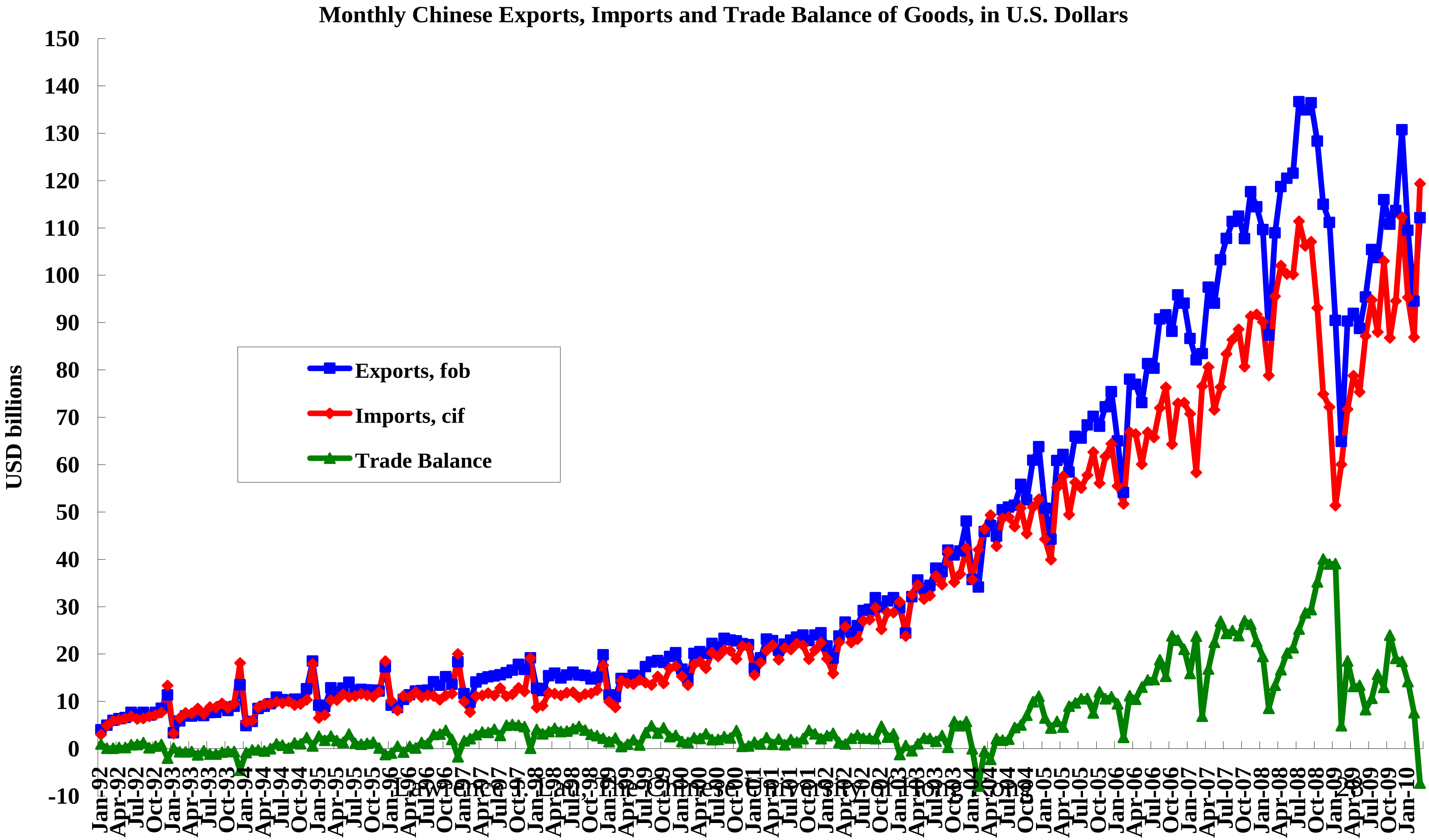
Is the Renminbi Under-Valued?

- A country's currency is considered under-valued if it runs a chronic surplus in trade in goods and services combined vis-à-vis the entire World. (A country's currency is considered over-valued if it runs a chronic deficit in trade in goods and services combined vis-à-vis the entire World.)
- A bilateral trade surplus or deficit, even a chronic one, says nothing about whether its currency is under-valued or over-valued because a country may still have a near zero or even negative trade balance vis-à-vis the entire World. For example, almost all non-oil producing countries have chronic trade deficits with oil-exporting countries—that does not imply that they all have over-valued currencies.

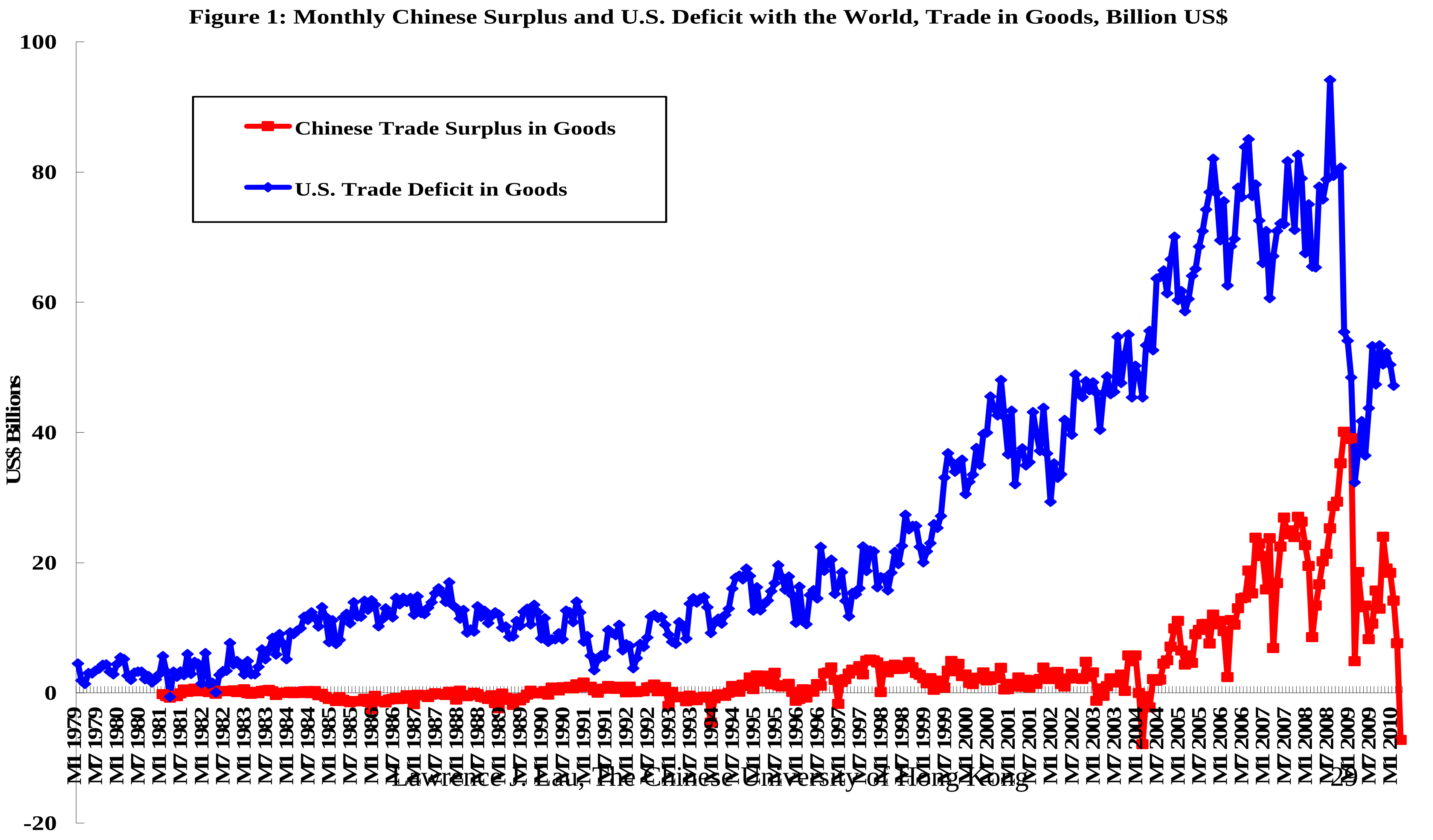
Is the Renminbi Under-Valued?

- The statistics on Chinese trade balances over the past three decades indicate that China has had essentially balanced trade in goods and services with the World until 2005 (see the following charts).
- In contrast, the large U.S. trade deficit with the World existed since at least 1998, long before China began to run a trade surplus with the World in 2005.
- The Chinese trade surplus vis-à-vis the World, which began rising in 2005, reached a peak in 2007 and began to decline in 2008. In 2009, the Chinese trade surplus of goods alone declined by more than 34% to US$196.1 billion, or less than 4 percent of Chinese GDP. Goods and services combined, the Chinese trade surplus for 2009 would have been approximately 3 percent of Chinese GDP. The Chinese trade surplus turned negative in March 2010, with a deficit of US$7.24 billion. For 2010Q1, Chinese trade surplus was US$14.49 billion, a decline of 76.7 percent from the same period of last year.
- On an annual basis, the Chinese trade surplus should be within plus or minus 1 percent of Chinese GDP in a year or two.

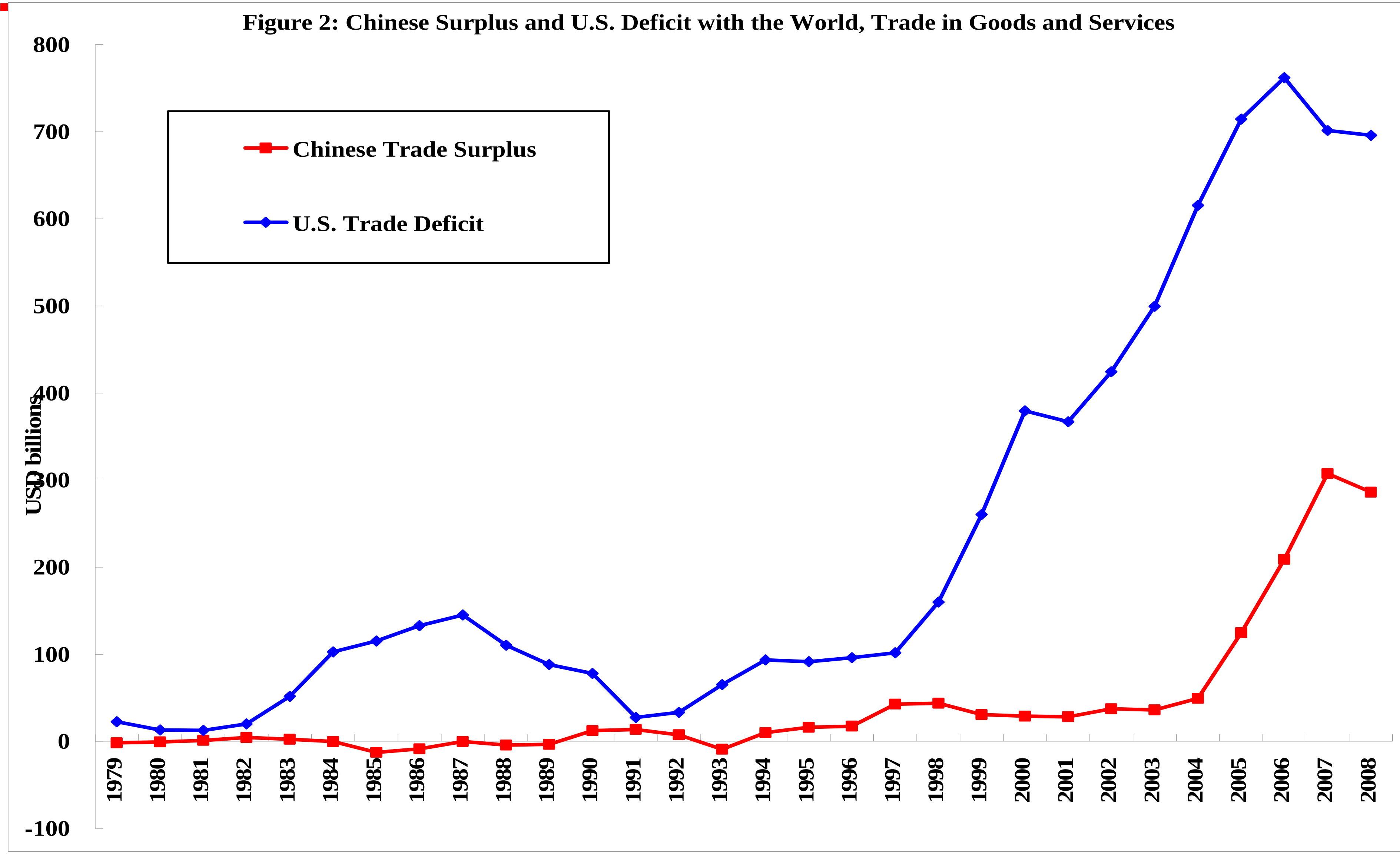
Chinese Monthly Exports, Imports and Trade Balance, US$



Monthly Chinese Surplus and U.S. Deficit with the World, Trade in Goods, Bill. US$



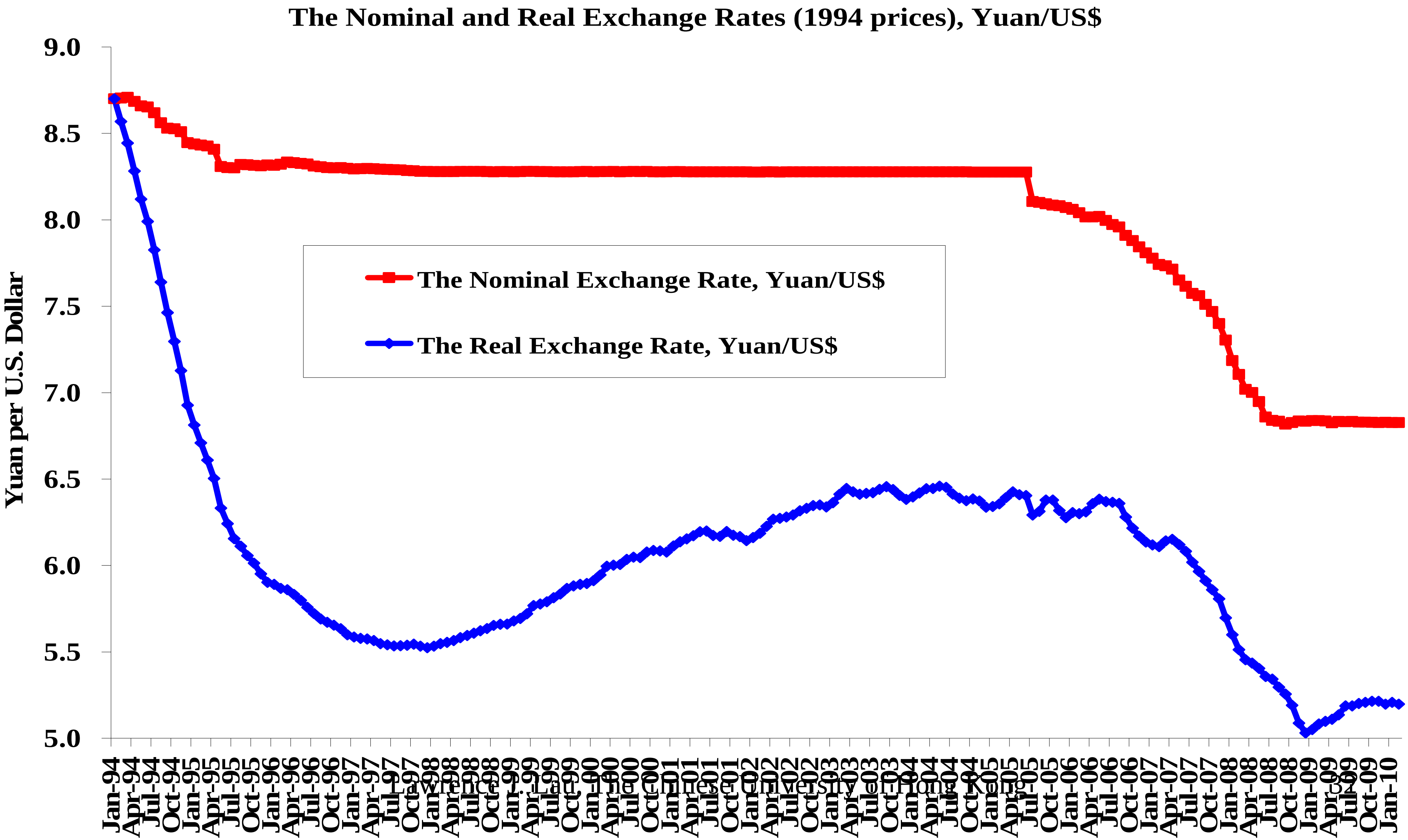
Annual Chinese Surplus and U.S. Deficit with the World, Goods & Services, US$



Is the Renminbi Under-Valued?

- What this means is that while there is evidence that the U.S. Dollar might have been over-valued at least since 1998, there is no evidence that the Renminbi was under-valued prior to 2005.
- In July 2005, the Renminbi was allowed to appreciate and rose 20 percent in nominal terms and 25 percent in real terms by the end of 2008.
- The long-term goal of the Chinese Government is to reduce the Chinese trade surplus vis-à-vis the World to zero. If the current trend continues, the goal of approximately zero trade balance can probably be achieved by 2011, without necessarily any large adjustment in the nominal Yuan/U.S. Dollar exchange rate. If Chinese trade with the World is essentially balanced, then there is no question of the Renminbi being under- or over-valued.

The Nominal and Real Yuan/US$ Exchange Rates



The Chinese Trade Surpluses Could not Have Caused the Global Imbalances

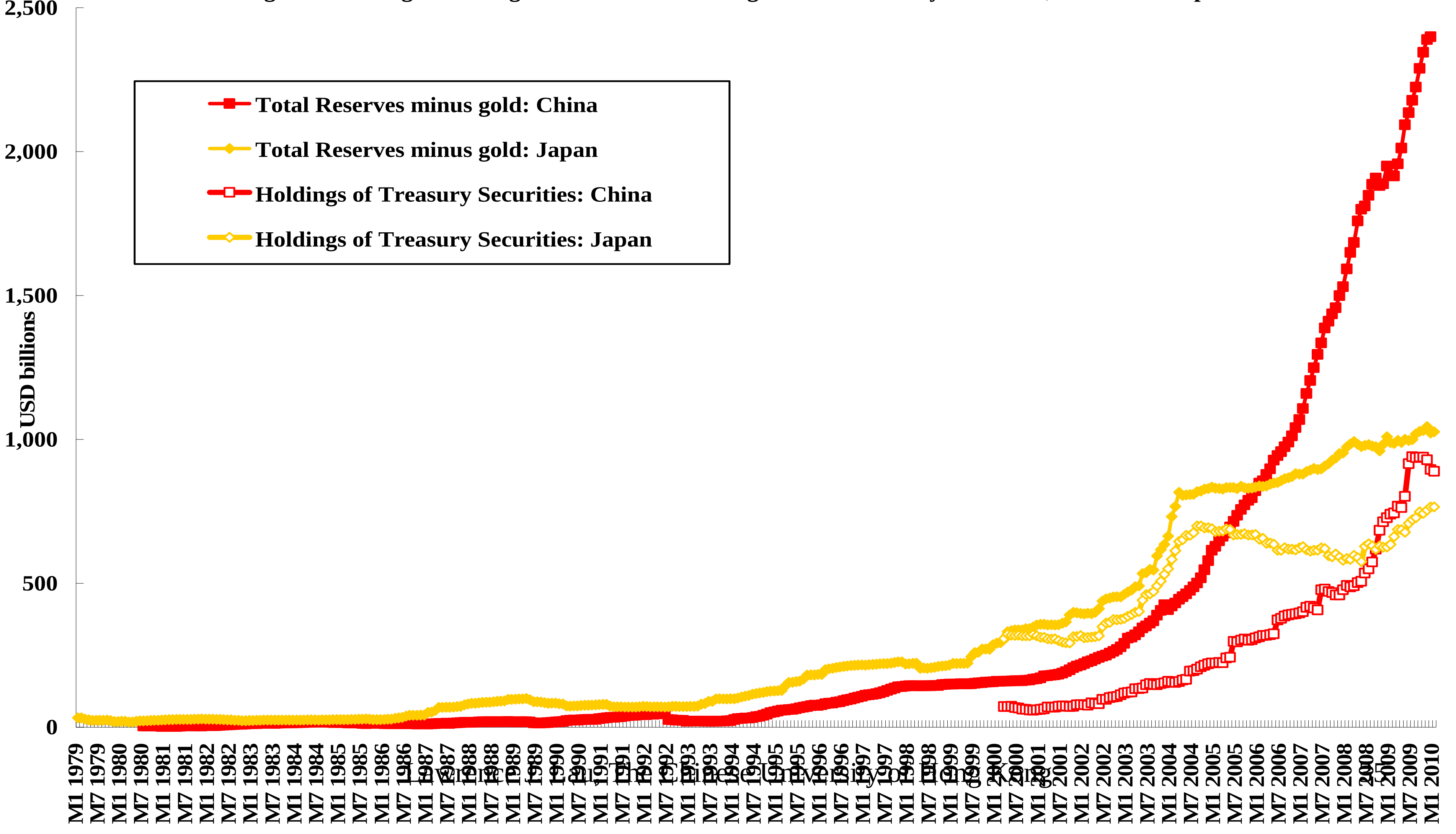
- Global imbalances have been blamed as a major cause of the current global financial crisis. However, the large U.S. trade deficit with the World existed since 1998, long before China began to have a significant trade surplus vis-à-vis the World. In 2000, U.S. trade deficit was US$380 billion whereas the Chinese trade surplus was only less than US$30 billion. Thus, the Chinese trade surpluses could not possibly have been the source of the global imbalances that supposedly fed the global liquidity that ultimately caused the current global financial crisis.

The Chinese Trade Surpluses Could not Have Caused the Global Imbalances

- Japan and the oil exporting countries accounted for most of the trade surpluses vis-à-vis the World, and hence the global imbalances, since 2000. Japan had the largest official foreign exchange reserves in the World until it was overtaken by China in 2006, and the Bank of Japan consistently held the largest amount of U.S. Treasury securities until the last quarter of 2008, when holdings of the People's Bank of China exceeded the Bank of Japan for the first time.

Foreign Exchange Reserves and U.S. Treasury Securities Held, China & Japan

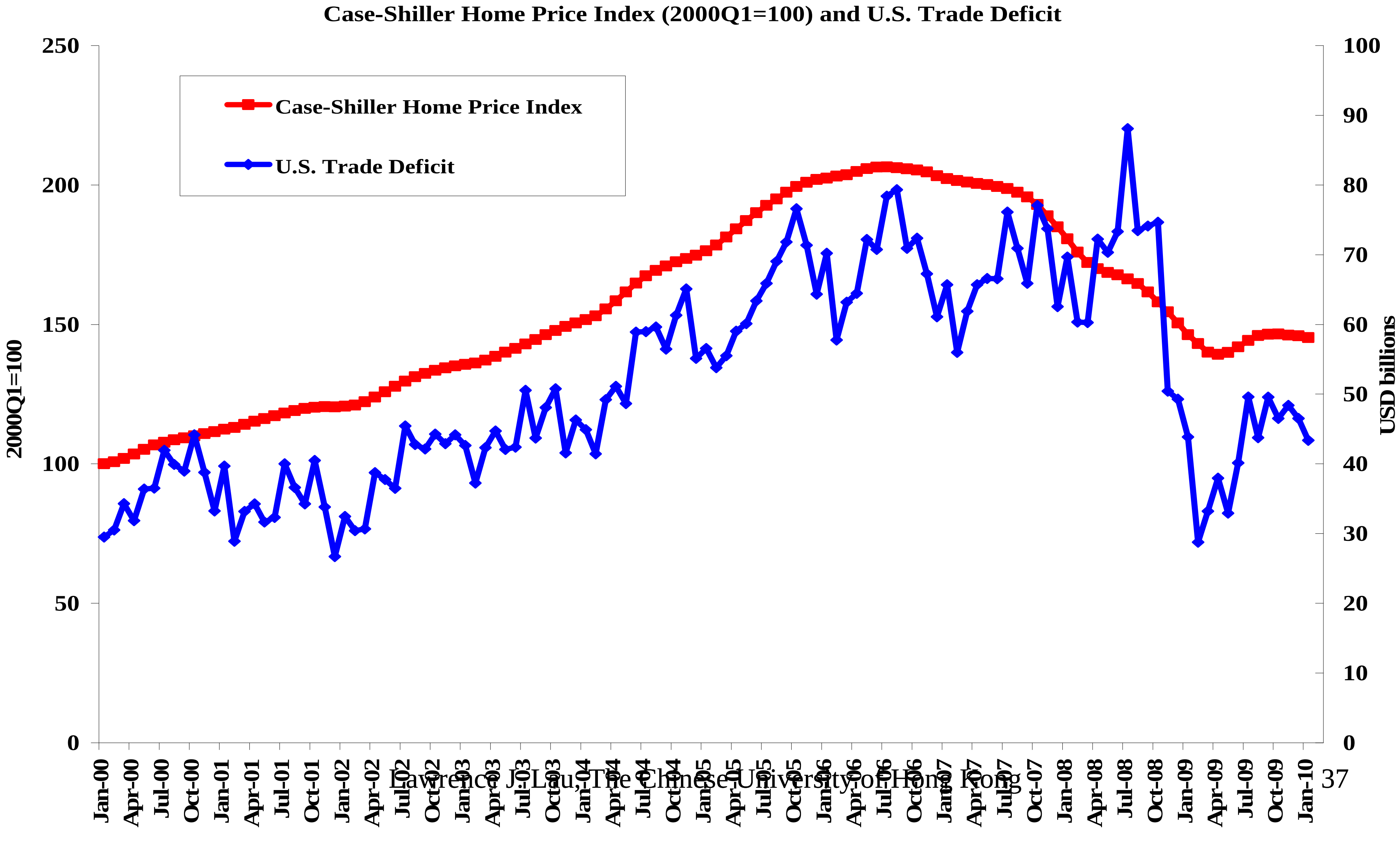
Figure 4 : Foreign Exchange Reserves and Holdings of U.S. Treasury Securities, China and Japan



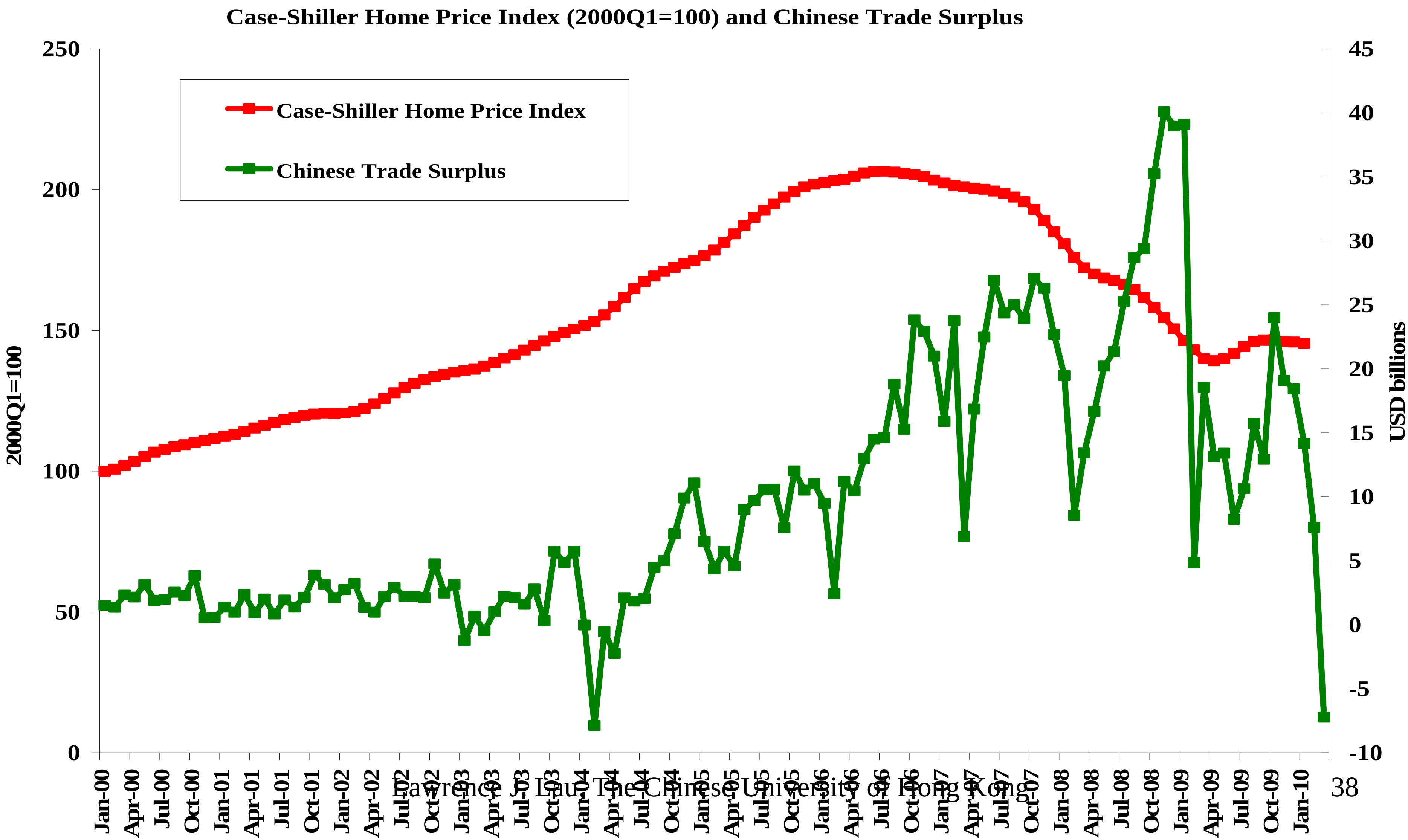
The Chinese Trade Surpluses Could not Have Caused the Global Imbalances

- In fact, the Case-Shiller U.S. Home Price Index, which can be taken as a proxy for the speculative asset price inflation caused by the growth of the sub-prime mortgage loans in the U.S., correlates almost perfectly with the U.S. trade deficit with the World but not with the Chinese trade surplus, demonstrating yet once again that the Chinese trade surpluses could not have been responsible for the global imbalances.

Case-Shiller U.S. Home Price Index and the U.S. Trade Deficit



Case-Shiller U.S. Home Price Index and the Chinese Trade Surplus



The Role of a Reserve Currency

- International trade and other international transactions are normally denominated in a limited number of currencies principally because the citizens of most countries do not wish to accept or to hold the currencies of other countries than the few recognized as “reserve” currencies (e.g., US$, Euro, Japanese Yen, Swiss Franc, British Pound). (Gold is possibly an exception.)

The Role of a Reserve Currency

- Reserve currencies such as the U.S. Dollar add value by enabling international transactions, in particular trade transactions, that otherwise may not take place. Without the use of the U.S. Dollar or a similar medium, many countries will be limited to doing only barter trade with one another. The U.S. has thus contributed to the World economy by being a principal provider of the international liquidity needed to support international trade transactions.
- The central banks of many countries maintain foreign exchange reserves in the form of assets in the major reserve currencies as essentially working capital that may be used to pay for imports from countries unwilling to accept their own currencies, as well as the principal and interest on foreign-currency denominated loans.

The Role of a Reserve Currency

- Reserve currencies are characterized by wide, if not universal, general acceptance everywhere and by stability in terms of real purchasing power. Thus, the currency of a country with a high rate of inflation is unlikely to become a reserve currency. Reserve currencies are in general fully convertible.
- The Renminbi has been current accounts convertible since 1994. However, it has not become fully capital accounts convertible. There still exist both inbound and outbound capital controls in China. Some categories of capital movements require prior government approval. But individual Chinese citizens can remit up to US$50,000 per person overseas each year, with few questions asked.

The Role of a Reserve Currency

- The willingness to accept and to hold a non-local currency depends, but not exclusively, on whether the currency is fully convertible. A person may be quite willing to accept and to hold a non-local currency if he or she knows that the next person he or she comes across is also likely to accept and hold the currency. There can be wide general acceptance without full convertibility.
- Even though the Renminbi is not de jure fully convertible, it has gradually become de facto convertible in many economies in East Asia because of its wide general acceptance. For example, the Renminbi is widely accepted and used in Hong Kong, Macau, Laos, Myanmar, and other border areas even though it is not legal tender in these places.

The Role of a Reserve Currency

- The Renminbi is ready to assume a greater role in international transactions, especially in Chinese international trade transactions within East Asia. This is also in part out of necessity, as one can no longer count on a steady growth of U.S. Dollar balances outside of the U.S. It is thus time to promote more settlement of Chinese international trade transactions, especially those within East Asia, in Renminbi, so as to reduce reliance on the U.S. Dollar, transactions costs and the risks associated with the U.S. Dollar exchange rates.
- However, increased internationalization of the Renminbi does not necessarily imply that the Renminbi will become a major international reserve currency. It may not be in China's interests to have the Renminbi become, over time, a principal reserve currency like the U.S. Dollar.

The Benefits and Costs of Being the Issuing Country of a Reserve Currency

- The benefit to the issuing country of a reserve currency is in the seigneurage. The issuing country can pay for its imports by printing money (or what amounts to more or less the same thing, bonds). The country receiving the money and/or bonds puts them into its foreign exchange reserves and does not spend them. So the issuing country is able to acquire real goods of real value with essentially pieces of paper which it can print at will—a great bargain.
- It is only when the receiving country decides to spend the money to buy goods and services from the issuing country that the issuing country has to export real goods and services to the receiving country in exchange. Reserves are normally accumulated and held in the receiving country for a long time, to the benefit of the issuing country.

The Benefits and Costs of Being the Issuing Country of a Reserve Currency

- The “cost” to the issuing country is that in order to benefit from seigneurage, it must in general run a trade deficit. (If it has a chronic trade surplus, it does not need to print money (or bonds) to pay for its imports and other countries will have a hard time acquiring its currency.) A country with mercantilist tendencies does not like to run trade deficits and hence may not want its currency to become a major reserve currency.

The Benefits and Costs of Being the Issuing Country of a Reserve Currency

- A further “cost” is the possibility that the other receiving countries may decide at some point to stop holding this currency and sell the currency and the bonds they hold, potentially creating havoc to the exchange rate of the currency and the financial markets of the issuing country.
- Of course, if the issuing country is “too big to fail,” as in the case of the United States, it is another matter altogether.

Alternative Mechanisms for the Settlement of International Transactions

- Chinese international trade accounts for one-third of East Asian international trade. Thus, if the settlement of Chinese trade with other East Asian economies can be done in Renminbi and the respective local currencies, the need for the use of other reserve currencies to finance these transactions will be significantly reduced. Recent bilateral swap agreements between the People's Bank of China and other East Asian central banks make invoicing and settlement of international trade transactions in local currencies instead of reserve currencies such as the U.S. Dollar and the Euro possible.

Alternative Mechanisms for the Settlement of International Transactions

- One major disincentive for Chinese traders and their foreign counterparties to denominate and settle trade transactions in Renminbi is the one-sided nature of the expectation of the Yuan/US$ exchange rate. Rightly or wrongly, everyone expects the Renminbi to appreciate with respect to the U.S. Dollar. Thus, while a Chinese exporter would like to quote and invoice in Renminbi, the U.S. importer of the Chinese goods would not want to place an order in Renminbi for fear that it might cost much more in terms of U.S. Dollars by the time the goods arrive in the U.S. several months later.

Alternative Mechanisms for the Settlement of International Transactions

- Thus, in order to encourage and promote trade settlement in Renminbi, the People's Bank of China may wish to consider creating a forward market in Renminbi but with participation limited to bona fide exporters and importers engaged in Chinese international trade with established track records and with amounts limited to no more than the full value of the merchandise. The purpose of the forward market is to provide "insurance" to those bona fide traders against fluctuations in the Renminbi exchange rate and not to provide an instrument for speculation.

Alternative Mechanisms for the Settlement of International Transactions

- There are also other alternatives, for example, creating a mechanism and framework so that East Asian economies, both developed and developing, can settle their international transactions with one another with their local currencies.
- One model was provided by the European Payments Union (1950-1958). In the aftermath of World War II, when all the major economies in Western Europe were still recovering, West German exporters were reluctant to accept French Francs, French exporters were reluctant to accept the German Mark, and both German and French exporters were reluctant to accept the Italian Lire. They would all accept the U.S. Dollar (the only accepted reserve currency), which was then in short supply in Western Europe. The growth of international trade within Western Europe was thus quite constrained.

Alternative Mechanisms for the Settlement of International Transactions

- With the assistance of the United States Marshall Plan, the European Payments Union (EPU) was established by the Organization for European Economic Cooperation (OEEC) in July 1950, with the Bank for International Settlements acting as its agent, to solve the problem of insufficient international liquidity (U.S. Dollars).
- The basic idea of the European Payments Union is for countries to settle their balances on a net basis rather than on a gross basis, both chronologically and geographically. For example, Country A may have a trade surplus with Country B today but it may have a trade deficit with Country B tomorrow. They need only to settle the net difference over a period, say, a month. This minimizes the amount of U.S. Dollar balances needed for the settlement. For another example, Country A may have a trade surplus with Country B, and Country B may have a trade surplus with Country C, and Country C may have a trade surplus with Country A. They need only to settle the consolidated net balance across all pairs of countries participating in the payments union. Again, this also minimizes the amount of U.S. Dollar balances needed for the settlement.

Alternative Mechanisms for the Settlement of International Transactions

- The European Payments Union was quite successful and intra-West European trade doubled within a relatively short period of time.
- The European Payments Union was replaced by the European Monetary Agreement in December 1958 when convertibility of the Western European currencies was finally restored.

Alternative Mechanisms for the Settlement of International Transactions

- For East Asian economies it is possible to consider creating a similar institution, say, a "Bank for Intra-Asian Settlements," to facilitate settlement of Intra-East Asian international transactions in local currencies. The "Bank for Intra-Asian Settlements" will be capitalized by its member East Asian central banks, with the People's Bank of China and the Bank of Japan playing a leading role.
- Such a "Bank for Intra-Asian Settlements" may, for example, operate in the following way: Thai importers can purchase goods from different East Asian economies by making payments in Thai Baht, and Thai exporters can sell Thai goods to different East Asian economies for their local currencies. The Thai central bank will exchange the different local currencies earned by the Thai exporters for Thai Baht. It may hold some of the foreign currencies received as part of its foreign exchange reserves. It will turn over the balance to the "Bank for Intra-Asian Settlements" to exchange for Thai Baht and possibly other East Asian currencies.

Alternative Mechanisms for the Settlement of International Transactions

- Other East Asian central banks will do the same with their respective local and non-local currencies received.
- The "Bank for Intra-Asian Settlements" will accept all the foreign currencies submitted by all the East Asian member central banks. It will arrange for all the Thai Baht turned in to be exchanged to the Thai central bank at appropriate exchange rates (e.g., rates at which the Thai central bank paid to acquire the non-Thai currencies from its importers), and all the other respective local currencies turned in to the respective central banks.
- It is possible that the "Bank for Intra-Asian Settlements" may wind up with more Thai Baht than the foreign currencies turned in by the Thai central bank merits, implying that Thailand has an aggregate trade deficit vis-a-vis the East Asian economies as a whole. The "Bank for Intra-Asian Settlements" can sell the excess Thai Baht back to the Thai central bank, or to anyone of the East Asian member banks, or simply hold the Thai Baht or use the Thai Baht to purchase Thai government bonds, preferably inflation-protected (see below).

Alternative Mechanisms for the Settlement of International Transactions

- The “Bank for Intra-Asian Settlements” can set limits of how much of each East Asian local currency it is prepared to hold in its reserves.
- Bilateral swap agreements between central banks and the recently enhanced Chiangmai Initiative are the first steps towards making such holdings possible.
- Other settlement arrangements are possible—the important basic idea is to enable international trade transactions within East Asia to be settled in local currencies which are not necessarily fully convertible. This will allow East Asian international trade to continue to grow even if the U.S. dollar liquidity stops growing or even begins to decline.

Alternative Portfolio Assets for Official Foreign Exchange Reserves

- Major East Asian central banks, such as the People’s Bank of China, the Bank of Japan and the Bank of Korea, can also begin to diversify their holdings of foreign exchange reserve assets. In addition to the traditional reserve currencies, they can also begin to buy and to hold the sovereign debt issued by the developing East Asian countries (e.g., Malaysia, Thailand, Vietnam), denominated in their respective local currencies. The debt can be held in the form of short-term bills as well as long-term (more than a year in maturity) bonds , with the interest rate on the long-term bonds indexed to local rates of inflation.
- The composition of reserve assets can be changed gradually to match the changed currency demands for transactions purposes as settlement in local currencies becomes possible.
- This enables the East Asian central banks to buy or hold less reserve assets denominated in the major international reserve currencies such as the U.S. Dollar and the Euro.

Alternative Portfolio Assets for Official Foreign Exchange Reserves

- This allows developing East Asian countries to borrow (and repay) in their own local currencies. But at the same time, by issuing bonds in local currency with repayment indexed to inflation, they also demonstrate to the market a real strong commitment to bring inflation under control (otherwise the indexed bonds will become quite costly for them to repay as almost all government revenue is in nominal terms). This signal may actually pay off for the issuing country by lowering local inflationary expectations and hence the rate of interest on even non-inflation-protected bonds.
- This helps to create an active market for East Asian government bonds denominated in local currencies.

Alternative Portfolio Assets for Official Foreign Exchange Reserves

- At the same time, this also allows the major East Asian central banks to diversify the composition of assets held in their foreign exchange reserves to beyond the major reserve currencies. The major East Asian central banks are willing to hold these inflation-protected local-currency bonds because they can always purchase equivalent real goods with the repaid principal and interest when the bonds mature.
- For example, if the principal of a Thai bond is sufficient to purchase 10,000 metric tons of Thai rice initially, the repaid principal upon maturity will also be sufficient to purchase 10,000 metric tons of Thai rice, plus there will also be interest paid in the interim. So the holder of a Thai bond will still have a positive real rate of return regardless of the rate of inflation in Thailand.

Concluding Remarks

- It is in China's interests to maintain a stable exchange rate. However, it is not in China's long-term interests to have the Renminbi pegged rigidly to the U.S. Dollar. For the same reason, it is not in China's long-term interests to have the Renminbi pegged rigidly to a basket of foreign currencies. China must maintain the flexibility to manage its exchange rate—it is too important a price to be left completely to a market full of potential speculators. China should therefore maintain a "managed floating exchange rate."
- Adjustment of the exchange rate can depend on many factors: the long-term trade balance, the rate of inflation relative to other major trading partners, public confidence, etc.

Concluding Remarks

- It is in China's long-term interests to focus on the development of its own huge internal market. It is going to be the only reliable and sustainable source of growth of aggregate demand for China.
- China's goal, as far as international trade is concerned, should be to achieve an approximate balance—with no large surplus or deficit vis-à-vis the World. If international trade in goods and services combined is approximately balanced, then there is no need to make any significant adjustments to the Renminbi exchange rate.

Concluding Remarks

- If the East Asian economies can settle their trade accounts in their local currencies, it would be a major step towards further financial cooperation and integration.
- A Bank for Intra-Asian Settlement can facilitate the settlement in local currencies in the same way the Bank for International Settlement facilitated settlement among Western European countries in their own currencies after World War II.
- East Asia has learned from its financial crisis of 1997-8 that a beggar-thy-neighbor policy of competitive devaluation does not help anyone.

Concluding Remarks

- The global financial crisis of 2007-8 was clearly brought about by easy money in the U.S. and serious regulatory failure in the U.S. and elsewhere. But let us not waste time in laying blame but instead devote our efforts to restoring the economic health of the World.
- East Asia can do its part by continuing to grow and to provide a market for North America and Europe.