New Mission for International Monetary Governance: A Win-win Situation (II)

May 27, 2012

This afternoon of May 27th witnesses Shanghai Forum 2012 "New Mission for International Monetary Governance: A Win-win Situation" in Guanghua Tower, Fudan University. The theme of the panel is" Current account, capital account and exchange rate system of China". In context of the contemporary economic situation of world and China, professors and scholars attending this meeting devoted highly in discussing the topic.

Liu Hongzhong, professor from Fudan University, stands first to state his opinion. His deliver focuses on the "current account surplus of China: imbalance or rationality----based on empirical research of intertemporal consumption tilt", the puzzle underlying is whether China economic imbalance on foreign sector or the rational choice of Chinese consumers leads to the notable current account surplus of China. By setting up a model and empirical test, he points out that Chinese consumers prefer to consumer in future rather than at present compared to foreign consumers, which serves as a momentum to improve the surplus. In the other aspect, the optimistic expectation of future income flow also increases the surplus amount. However, the concerns about the economy overheating after 2008 deteriorated the expectation of future income, accordingly a decrease in surplus is due to happen. Combine these two facts mentioned, the proceeding current account surplus of China is derived from the preference of the future consumption and the optimistic expectation of economy growth of Chinese residents, rather than long-term imbalance caused by human factors.

To follow the discussion, Yin Jiangfeng, professor from Chinese Academy of Social Sciences, gives a depict of the current account surplus from a global perspective. He believes that most prevailing explanations of the surplus are doubtful and obscure on their identical assumption. The specific assumption is that the saving rate of global economy will increase, which contradicts what happened in reality. He states that the hegemony of the dollar is the main cause, exemplifies that the U.S. have both decreasing savings and increasing credits in the past decades due to the international reserve currency position of the dollar, which in turn brings the structural imbalance of world economy.

While Yin chooses a global consideration, Professor Masayuki Susai from Nagasaki University observes the foreign exchange market from microcosmic relations of market intervention and order flow. He uses the Japanese high-frequency data to test market the foreign exchange market intervention. Through econometric analysis, he wants to fix these intervention time, allowing intervention in the market, government intervention prior to the corresponding measures. It can be seen from the results, market intervention may change the expectations of traders and dealers according to their expectations, thus contributing to the market price changes in this direction.

Michael Mattlin analyses the contention around the openness of capital account of China under the measurement of political economics. In China, the transactions in capital account is somehow restricted, and restricted strictly in some specific areas, while the Internationalization of the RMB requires openness to some extent under cautionary supervision. In all the process of the openness is slow and gradually advancing, nevertheless the existing discrepancy between supervision and freedom. As for today, there are many obstructions---the imperfections in financial markets and supervisions for example---to overcome to reach the goal of the Internationalization of the RMB, and there shall be a long way to go.

Song Jun, professor of Fudan University, proposes her explanation in the configuration of the currency of China foreign exchange reverses. She considers how to optimize the investment portfolio by using China's huge foreign exchange reverses, taking account of the possible returns and potential risks. She extends her research via adding skewness and kurtosis measurement to the traditional portfolio model, and optimizing the ratio of foreign currencies, bonds, and stocks in the selected five main currencies. By careful calculating, she concludes that we'd better hold dollar despite the big loss we have suffered, it is not a bad choice when taking the risk into consideration.

Zhang zhichao from University of Durham studies the impact of China's new exchange rate system. The data show that changes in exchange rates will only affect a small number of the company, and the company's response to exchange rate changes faster than expected: many companies hedges on the exchange rate risk. He thinks we need to develop better policies to help these companies, enabling them to less sensitive in the future exchange rate shocks. Professor Toshiaki Hasegawa from Chuo University describes how external force impacts the whole industrial development of Asia. He analyzes the factors the affect economic growth and national output. He tests the reaction of industries under the influence of internal and external factor in different countries as well as their independence. On his analysis, he concludes that a certain degree of dependence among different economies exists and compared to the past, the correlation has been strengthened in different economics.

Finally，Professor Yang Changjiang evaluates whether RMB is undervalued or not. In his speech, he presents various identification method of estimating the equilibrium exchange rate and their problems. And then he analyzes the expansion of purchasing power parity method. In general, the relative price level translated according to the exchange rate should be positively correlated with the GDP per capita. But China's real exchange rate shows the opposite trend in the past. He points out that this does not prove that the government manipulates the exchange rate market. On the contrary, that results from the huge amount of surplus labor in China. In the last, he believes that prices may be underestimated in China, so we can’t adjust our economy on the basis of exchange rate. In addition, Macro international competitiveness based on the exchange rate will affect China’s economy growth in the future.