

China's International Reserves: A Matter of Development

Asian Financial Collaboration at a Crossroads

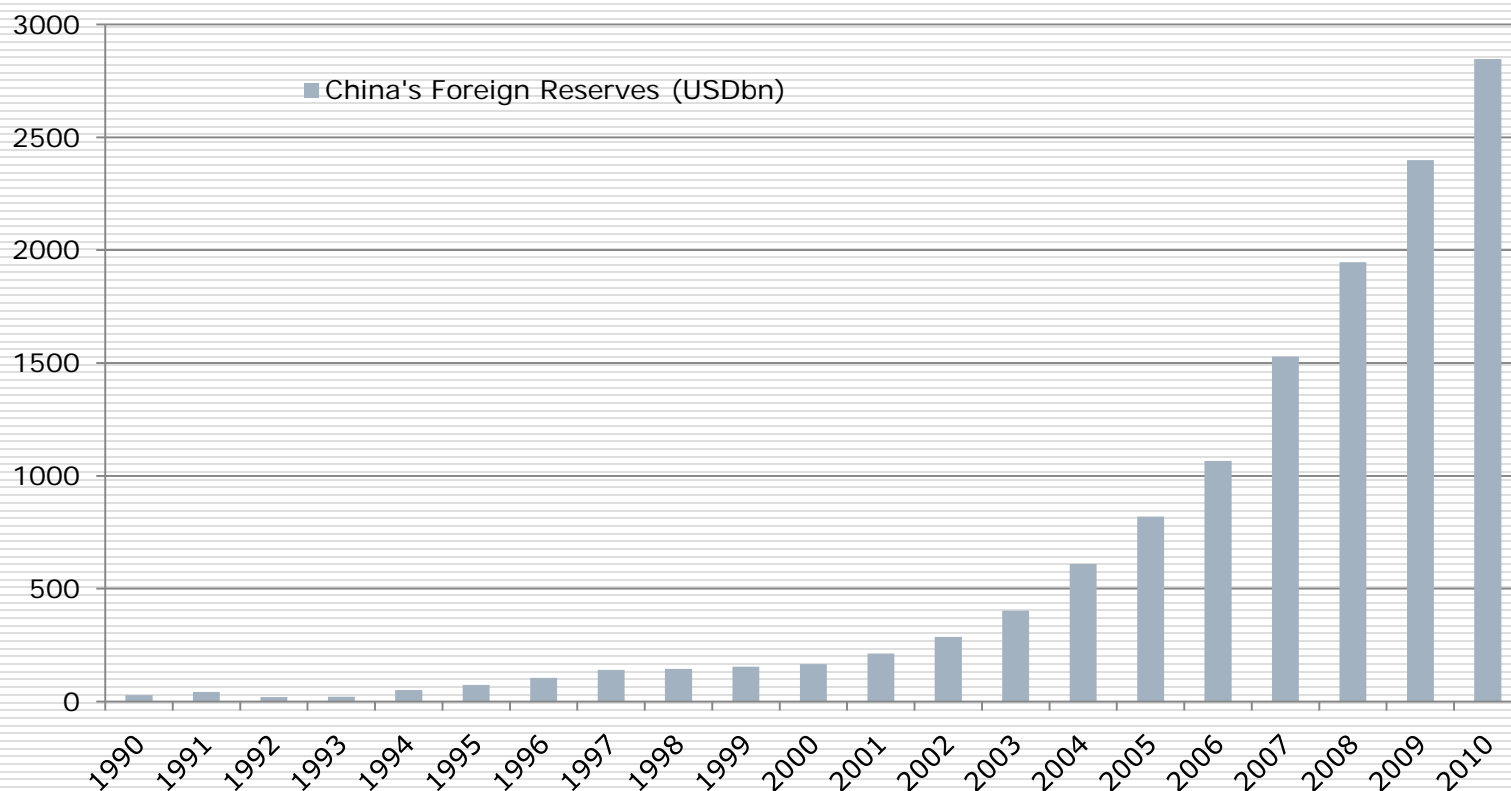
Seoul, Korea

April 28, 2011

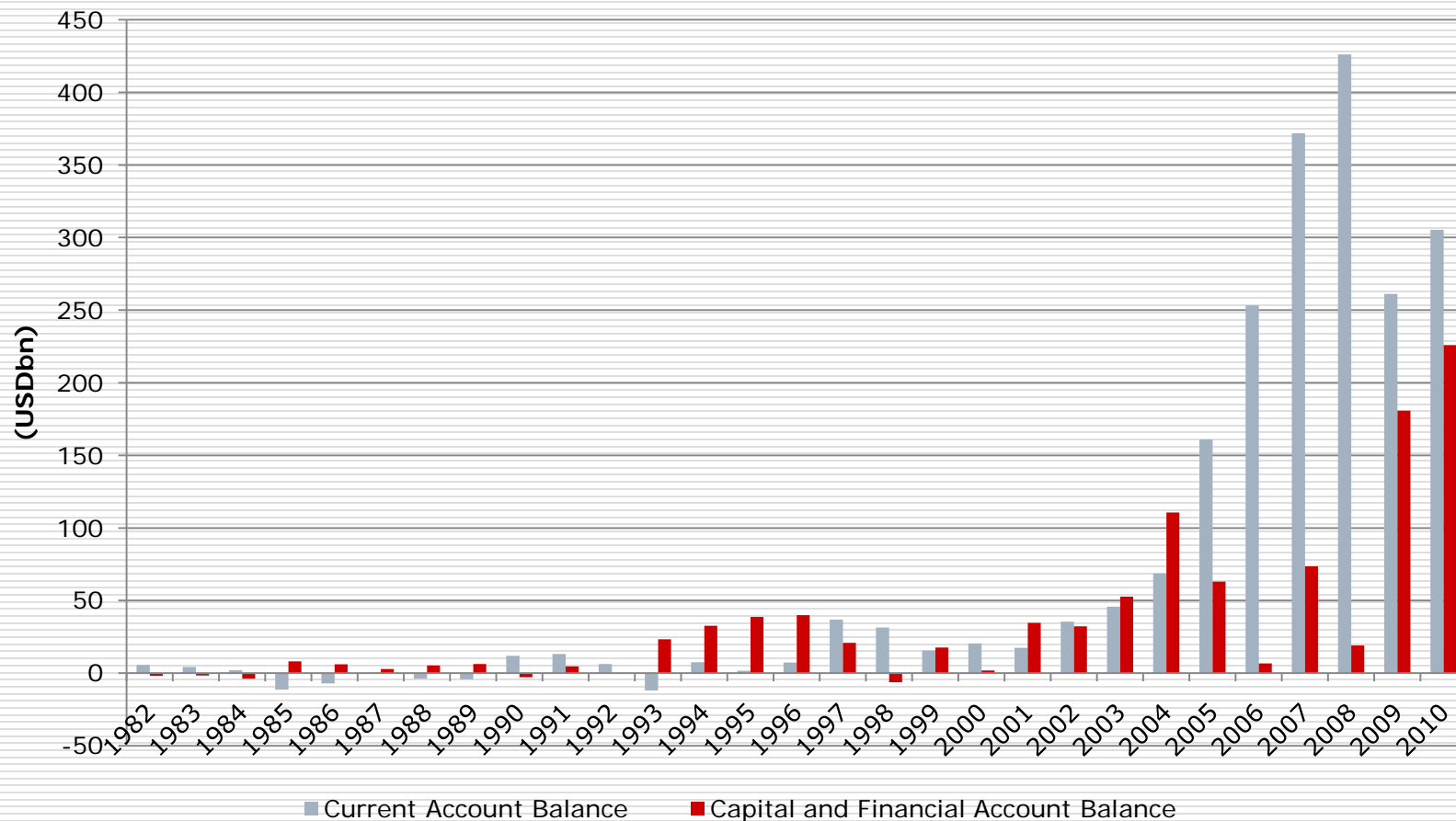
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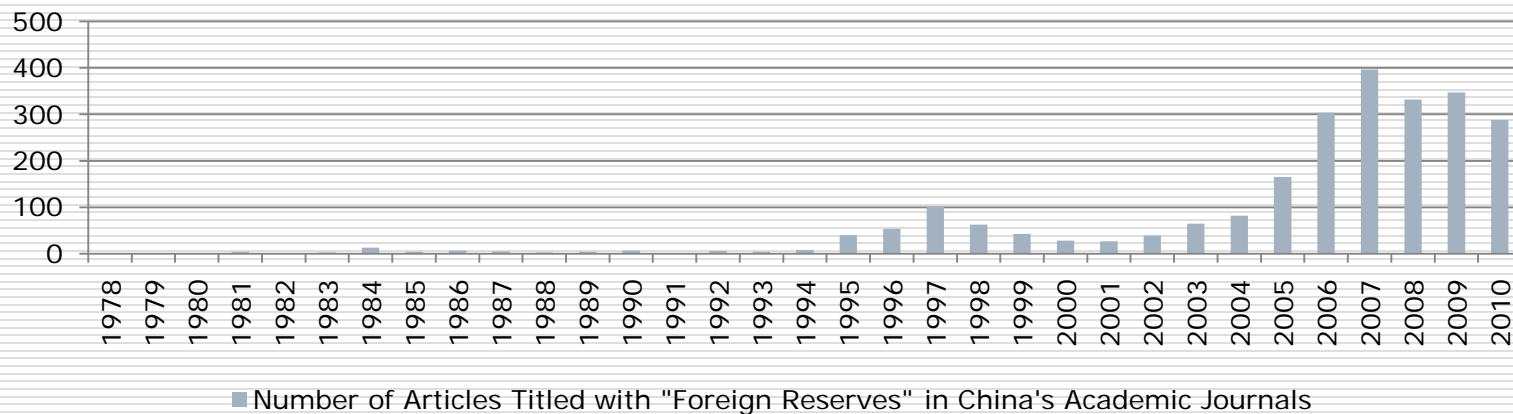
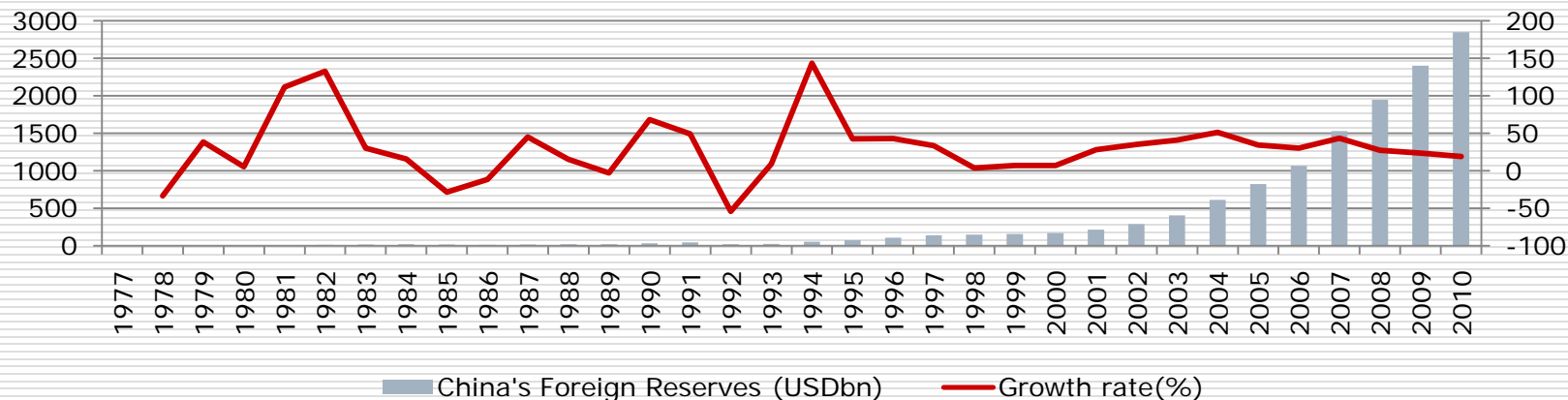
Growth of China's international reserves



Source of China's international reserves



When have China's international reserves become a problem?



Why did China's international reserves become a problem?

☐ Some known side effects

- Inflationary pressure
- Depreciation risk
- Opportunity costs

☐ Core problem

- Query on the export-led growth pattern
 - ☐ Are China's international reserves a scapegoat?

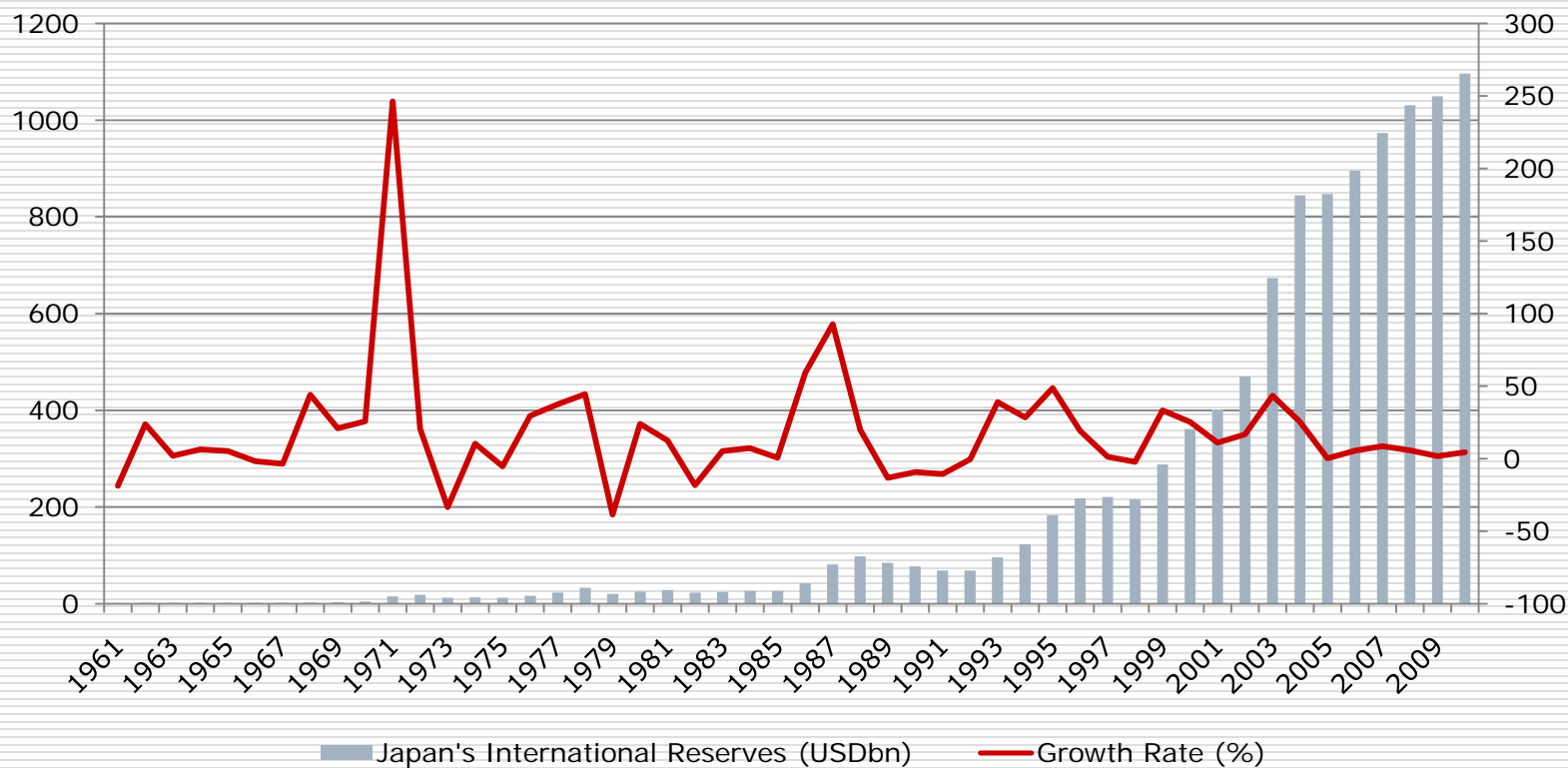
The (unintended) role of international reserves in China's economic development

- (Foreign) demand creation
- Wealth effects
- National strategic power

Measures to ease pressures from international reserves

- ❑ Recapitalization of Banks by Central Huijin Investment Company (2003)
- ❑ Establishment of China Investment Corporation (2007)
- ❑ Support for overseas operations of SOEs
- ❑ Internationalization of RMB

Will liberation of exchange rate halt the accumulation of international reserves?



“Shift of economic development pattern” and China’s international reserves

- Feasibility of finding a domestic market-oriented growth path
 - “Large country model”


- Role of international reserves in transition

View from a larger perspective

- Are international reserves “young” countries’ savings?
- Links to “Global Imbalance”
 - A self-correctable cycle?

Policy implications

- ❑ Expansion and identification of international reserves' functions
- ❑ Allowing a higher up-limit of scale of international reserves
- ❑ Keep alert of precipitous decline of international reserves



Thank you for your
attention!

