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The Appropriate Policy Mix for China

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Abstract

This paper discusses the appropriate policy mix for China in the post crisis period. As is well known, China has achieved a remarkable economic growth rate over the last 30 years using an export-led growth strategy. To implement this strategy, the Chinese authorities have pegged their currency to the US dollar and accorded favorable treatments to large corporations and wealthy individuals at the expense of ordinary workers and small and medium sized enterprises. However, this strategy is no longer appropriate. To continue developing, China should adopt a more flexible currency regime, use the excess profits of SOEs to invest in health care, pensions and educations, and liberalize the financial system. In the medium term, this policy mix will help to reduce global imbalances and to spread the fruits of the Chinese miracle to hundreds of millions of poor rural citizens and struggling urban migrants.

Keywords: Global rebalancing; China;
JEL classification: F32, F41

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I. Introduction

China's economic take off has been phenomenal. It transformed itself from a closed economy in the 1970s to the world's largest exporter in 2010. It has also become the second largest economy in 2010 and experienced growth rates averaging more than 9 percent per year even during the crisis years between 2008 and 2010.

If this silver cloud has a dark lining, it is that China's growth has favored large corporations and wealthy individuals at the expense of ordinary workers and small and medium sized enterprises (Zoellick and Lin, 2009). Pettis (2010) notes that Chinese consumption, at between 31 and 36 percent of GDP, is probably the lowest ever recorded for a major economy. In addition, he notes that the income distribution may be far more skewed than even the official data indicate. Rajan (2010) argues that, to remedy the situation, China should start being kinder to households.

This paper considers how Chinese policy can move in this direction. It first argues that China's trade surpluses and the heavy intervention in the foreign exchange market that accompanies them are undesirable. Private and social rates of return would be much higher for investments in the domestic economy than for investments in external reserves such as U.S. Treasury securities. In addition, China's tight peg generates inflationary pressures domestically and deflationary pressures in deficit countries like the U.S. It also causes huge exchange rate volatility among Asian countries linked through regional production networks and complicates China's macroeconomic management. For these reasons China should continue to move towards its self-proclaimed goal of adopting a regime characterized by a multiple-currency, basket-based reference rate with a reasonably wide band.

This paper then documents that saving-investment imbalances and thus trade surpluses have been driven largely by increases in corporate saving since 2003. These profits have arisen because state owned enterprises (SOEs) have monopolies in many sectors and face artificially low prices for factors of production such as land, labor, capital, and energy. While SOEs have earned large profits due to government subsidies, the true owners of these companies (the government and citizens) have not benefited. Thus the profits of SOEs should be taxed, and the profits used to fund spending on items such as health care, pensions, and education.

Spending on education should be a high priority for China. It can help China to climb the value chain and graduate from simple assembly operations to participating in higher value-added, knowledge-intensive activities. The educational needs are urgent in the rural sector, where only one in four students finishes high school.

This paper also argues that the financial system subsidizes state owned enterprises and state owned banks at the expense of ordinary savers and small and medium size enterprises (SMEs). Bank deposits are one of the few assets that Chinese savers can hold, and interest rates on bank deposits are set by the government at a rate less than the inflation rate. The loan rates are also kept low, giving large firms access to cheap credit. On the other hand, SMEs that employ the lion's share on China's workers are often unable to obtain credit. This limits their ability to raise wages for ordinary workers or to increase employment.

China should thus liberalize its financial system, reform its exchange rate system, price its factors of production appropriately, and invest in education. Fundamental changes of this type must be made carefully though and in the proper sequence to avoid

sparkling another crisis in Asia. In the medium term, however, they offer the possibility for the fruits of the Chinese miracle to spread beyond the large firms and the wealthy urban residents to the hundreds of millions of poor rural citizens and struggling urban migrants.

The next section outlines problems with China's exchange rate peg. Section III highlights how a surge in corporate saving after 2003 contributed to China's large surpluses. Section IV discusses the need to invest in education in China, especially in the rural sector, and Section V considers how to reform the financial sector. Section VI concludes.

II. China's Unsustainable Trade Surplus with the West

To understand China's trade surplus, data from China's Customs Statistics (CCS) are helpful. CCS distinguishes between imports and exports linked to processing trade and ordinary imports and exports.¹ Imports for processing are goods that are brought into China for processing and subsequent re-export. Processed exports, as classified by the Chinese customs authorities, are goods that are produced in this way. Imports for processing are imported duty free and neither these imported inputs nor the finished goods produced using these imports enter China's domestic market. By contrast, ordinary imports are goods that are not imported duty free and ordinary exports are goods that are produced primarily using local inputs. Feenstra and Wei (2009) report that 84 percent of China's processed exports were produced by foreign invested enterprises.

¹ The website for China's Customs Statistics is www.ChinaCustomsStat.com.

Figure 1 shows that most of China's trade surplus until 2008 and all of China's trade surplus after 2008 was due to processing trade. Table 1 shows that two-thirds of the imports for processing come from East Asia whereas only 5 percent each come from the U.S. and Europe. The Table also shows that, for processed exports, about 20 percent each goes to East Asia, the U.S., Europe, and Hong Kong. Since imports for processing come largely from East Asia while processed exports go throughout the world, China runs deficits of about \$100 billion dollars with East Asia and surpluses of almost \$100 billion with Europe and of more than \$100 billion with the U.S. and Hong Kong.

Because of entrepôt trade, China's surpluses with Hong Kong and Singapore largely represent surpluses with other countries. Kwan (2006) notes that, in the presence of entrepôt trade, import data are much more accurate than export data. When exports from China are transshipped through Hong Kong or Singapore, the Chinese government may not know the final destination of the goods. They thus record the goods as being exported to Hong Kong or Singapore. When the exports arrive at their final destination, however, the importing country records the goods as having come from China. Kwan thus recommends using import data from both trading partners to calculate bilateral trade balances. Using this approach, China's surplus with Europe increases by about 20 percent and China's surplus with the U.S. increases by 50 percent. Thus, China's surplus in processing trade is primarily with Western countries and especially with the U.S.

The pattern of China running large trade deficits with East Asia and even larger surpluses with the West suggests that an appreciation throughout East Asian supply chain countries would help to rebalance processing trade. An appreciation

throughout East Asia would affect the relative Euro and dollar prices not only of China's value added but also of the value of imported inputs coming from the rest of Asia. Formal evidence indicating that an appreciation throughout Asia would affect China's processed exports has been presented by Ahmed (2009) and Thorbecke and Smith (2010).

China's currency has not appreciated against the dollar because the People's Bank of China has intervened heavily in the foreign exchange market. The objectives of the PBoC in intervening has been: 1) to be prepared for a capital account crisis that would drain foreign reserves due to massive reversals of short-term capital flows, 2) to maintain competitive exchange rates in order to sustain the export-oriented thrust of its economy, and 3) to help maintain stability.

China's foreign currency reserves increased from \$140 billion at the end of 1997 to \$2.5 trillion in August 2010. It thus certainly has enough to meet the first objective, and foreign exchange interventions are motivated by the second and third objectives.

The renminbi's close link to the dollar has prevented a joint appreciation in Asia. This is because Asian economies do not only cooperate within production networks but also compete in third markets. Neighboring countries that compete with China have prevented their currencies from appreciating so as not to lose competitiveness against China in third markets. Thus, the tendency of market forces to generate an appreciation in East Asia that would help rebalance trade with the United States has been prevented by heavy intervention in the foreign exchange market.

This is made clear by Figures 2 and 3. Figure 2 show that, starting in 2003, there was a large shortfall between U.S. current account deficits and the private capital inflows

required to finance these deficits. The only exception to this was during the height of the financial crisis in the fourth quarter of 2008. At this time, investors sought refuge from the crisis in the perceived safety of U.S. Treasury securities. Figure 3 shows that that shortfall between U.S. current account deficits and private capital inflows has been made up by official purchases of U.S. assets by foreign government entities. The largest purchasers have been East Asian central banks.

Foreign reserve accumulation by Asian monetary authorities increases base money and hence creates excess liquidity in the banking system. This in turn increases the money supply and exacerbates inflation. To offset this, central banks in the region have engaged in sterilization policies. Sterilization involves selling government bonds or central bank bills to keep the monetary base unchanged and to mop up excess liquidity in the banking system.

There are several problems associated with reserve accumulation and sterilization operations. First, they cause commercial banks to hold more and more central bank bills, eroding bank profitability and interfering with the allocation of credit through the banking system. Second, they impose carrying costs on central banks because of the yield differential between interest earnings on U.S. securities (external reserves) and interest payments on sterilization bills. Third, they expose central banks in Asia to the risk of large capital losses if the dollar depreciates. Fourth, continued accumulation of U.S. Treasury securities results in an increasingly inefficient allocation of resources because both private and social rates of return would be much higher for investments in the domestic economy. Thus, continued intervention at the same pace is unsustainable, and China will eventually have to move away from large surpluses with the West.

If trade imbalances between China and the U.S. are unsustainable and the nominal renminbi exchange rate is not free to adjust, then adjustment will come partly through inflationary forces in China or deflationary forces in the U.S. (see Eichengreen and Temin, 2010). This would restore balance by raising the prices of Chinese goods and lowering the prices of American goods. There is some evidence that inflationary forces in China and deflationary forces in the U.S. are emerging. While China's official inflation rate equaled 3.3 percent in July 2010, many argue that this understates the true inflation rate (see Roberts, 2010). Housing costs have exploded, individuals seeking good medical care or good schools for their children often have to make hidden payments that are not recorded in the data, and food costs in urban areas have increased rapidly. The U.S. inflation rate, on the other hand, equaled 1.2 percent in July 2010 and many are forecasting disinflation or even deflation.

Not only does China's dollar peg produce inflationary forces in China and deflationary forces in the U.S., it also interferes with the functioning of regional production networks. To understand why, it is helpful to review the operation of the production networks that underlie China's processing trade.

Multinational corporations in East Asia have established value chains by slicing up production processes and allocating the production blocks across countries in the region based on relative endowments of capital, skill, labor, and infrastructure. As MNCs increase their tenure in developing Asia, they procure more from local firms. This leads to the formation of industrial clusters, and local engineers and skilled workers begin migrating among firms and sectors. They bring their accumulated human capital with

them and disperse it across the economy, promoting technological assimilation and productivity growth.

For instance, Kraemer and Dedrick (2006) document that the lion's share of the international production of notebook PCs is produced in the Yangtze River Delta by Taiwanese Original Design Manufacturers (ODMs). These manufacturers form part of a network that includes branded firms such as HP, Apple, and Toshiba, suppliers of key parts and components, producers of basic industrial materials, and makers of operating systems and CPU. Local Chinese firms supply connectors, batteries, switches, and displays and are also active in molding, casting, forging, plating, and module-assembling. Both digital and human networks enable PC producers to react efficiently in real time to changes in consumer preferences and technology. Firms assembling the notebook PCs have also kept inventories lean by processing 98 percent of the orders within three days. Productivity growth within this value chain has been amazing.

To understand how the renminbi's close link with the dollar has affected regional production networks, it is necessary to consider how it affects exchange rate volatility within the region. While China has kept the renminbi closely linked to the dollar, other Asian countries have adopted greater exchange rate flexibility. As a result, exchange rates between Asian countries have become very volatile (see, e.g., Figure 4).

In general the effect of exchange rate volatility on trade is ambiguous. Within East Asian production networks, however, both theoretical and empirical evidence indicates that exchange rate volatility deters trade (see Thorbecke (2008) and Hayakawa and Kimura (2009)). This effect arises because the service link cost for production blocks separated by national borders is an increasing function of risk and uncertainty, and

exchange rate volatility increases risk and uncertainty. In a recent survey of Japanese MNCs, Ito et al. (2008) find that exchange rate stability between Asian currencies is essential for the uninterrupted flow of parts and components within regional production networks.

Moving away from the close link to the dollar and introducing more exchange rate flexibility would also help the Chinese authorities with macroeconomic management. With the renminbi pegged to the dollar, Chinese interest rates are disproportionately influenced by U.S. interest rates. U.S. interest rates are currently set by the Federal Reserve at very low levels in order to fight deflation. With China facing inflationary risks rather than deflationary risks, low interest rates are not the appropriate monetary policy. As the World Bank (2010) notes, low interest rates in China lead to housing bubbles and overinvestment. Greater exchange rate flexibility would allow more decoupling between Chinese interest rates and U.S. interest rates, helping the PBoC to implement monetary policy that is appropriate for China.

For the reasons discussed above China's current exchange rate regime targeted at the U.S. dollar should change. A solution would be for China to continue to progress towards its self-proclaimed goal of adopting a regime characterized by a multiple-currency, basket-based reference rate with a reasonably wide band. In this case, there would be more stability between the renminbi and other Asian currencies. In addition, exchange rates in the region would be able to appreciate together in response to regional trade surpluses. This would help rebalance trade away from unsustainable surpluses with the U.S. towards producing for domestic and regional consumers.

III. Saving and Investment in the People's Republic of China²

The previous section argued that China's large trade surpluses are unsustainable, and discussed the role that exchange rate appreciations in Asia can play in rebalancing trade. Since the current account surplus equals the excess of saving over investment, another way to understand China's surpluses is by considering the evolution of saving and investment in the country.

The PRC's trade surplus only began increasing rapidly in 2003 (see Figure 5). As a percentage of GDP, the PRC's global current account surplus increased from 2 percent of GDP in 2002 to 11 percent in 2007. It equaled 10 percent in 2008 and 6 percent in 2009.

From the perspective of saving and investment, one of the key variables accounting for these imbalances is a rise in corporate saving. As Figure 6 shows, corporate saving in the PRC rose from 12.5 percent of GDP in 2002 to more than 28 percent in 2006. On the other hand, as Xing (2009a) notes, the household saving rate has remained constant at around 20 percent of GDP for many years and government saving has only increased modestly since 2003.

What caused corporate saving to increase so rapidly? The Asian Development Outlook (2009) reports that after-tax corporate profits rose by 6 percent of GDP between 2003 and 2006. Part of this increase was due to rapid economic growth and rising output prices that increased the profitability of state-owned enterprises (SOEs) and private firms. Since SOEs typically do not pay dividends, higher profits directly increase the firms' gross saving.

² I acknowledge my indebtedness to Xing (2009a) and (2009b) in writing this section.

Several other factors also contributed to high and rising saving rates among SOEs. Many have monopolies in various sectors, such as China Mobile in telecommunications and China National Petroleum Corporation in oil. As Xing (2009a) discusses, the resulting monopoly profits contributes to high corporate savings, extraordinarily high compensation among executives at SOEs, and a skewed income distribution.

In addition, as Huang (2009) argues, factor market distortions provided a subsidy to producers of almost 2 trillion renminbi (7 percent of GDP) in 2008. These subsidies include an underdeveloped social welfare system that lowers employers' labor costs, a Chinese yuan that is undervalued, artificially low land prices and real interest rates, administered prices for fuel and electricity, and environmental laws that are not rigorously enforced. These subsidies transferred resources to the corporate sector and increased their profitability.

Xing (2009b), Huang (2009), and others argue that the distorted distribution of income between capital and labor reduces workers' consumption. Since the return on citizens' savings is low, the primary source of income for consumption is labor income. While corporate profits have soared in recent years, labor income has fallen from greater than 50 percent before 2002 to below 40 percent at present. Low labor income is the main factor explaining why consumption in the PRC is less than 35 percent of GDP.

Low labor income is not only due to government-induced distortions. Surplus labor from the rural sector also suppressed wages. W. Arthur Lewis showed that when the supply of labor to the modern sector is infinitely elastic, wages will be less than the value of the marginal product of labor. Fang, Wang, and Qu (2009) find that workers in

the PRC are paid only 30 percent of the value of their marginal product. Thus excess labor tends to hold down wages in the PRC and transfer excess profits to firms.

Huang (2009) argues that one key to rebalancing is to remove factor market distortions. He advocates abolishing the “hukou” system that restricts migration to the cities and suppresses the wages of migrant workers. He also advocates market-determined interest rates, liberalized land and energy prices, and rigorous enforcement of environmental protection policies. If SOEs face higher costs for capital, land, and energy, their global competitiveness will decline and they will rebalance away from excess exports.

Xing (2009b) notes that the true owners of state owned enterprises are the government and citizens of the PRC. However, while SOEs have earned large profits due to the many government subsidies, the true owners have not benefited from these oversized profits. SOEs do not pay dividends, and the excess returns accrue instead to the executives and workers at these firms.

Xing (2009b) recommends taxing the profits of SOEs and using the proceeds to fund spending on education, health care, and pensions. Not only would this be fairer to the people of the PRC, but it would also increase consumption by reducing households’ needs for precautionary saving.

IV. Investing in Education

If China allows its currency to appreciate instead of accumulating reserves and reduces its trade surplus, it would have a recessionary impact. This could be offset by appropriate macroeconomic and structural policies. Switching policies such as exchange rate appreciations thus need to be combined with absorption-increasing policies.

To finance the increased expenditures, Xing (2009b) recommends taxing the profits of SOEs and using the proceeds to fund spending on education, health care, and pensions. Not only would this be fairer to the people of the PRC, but it would also increase consumption by reducing households' needs for precautionary saving.

Investing in education is necessary, especially in the rural sector. Many families in China are so poor that they cannot afford to send their children to school, even elementary school. Providing free elementary, middle and high school education would pay high dividends over time.

One reason why investing in education would be important for China is that an appreciation of the renminbi would cause a large decrease in China's low-tech exports such as textiles and toys (see Thorbecke and Zhang, 2009). To remedy this, China needs to assimilate new technologies and move up the value chain. Research has shown that technology transfer from multinational companies to developing countries increases as the workforce in the host country becomes more educated (Urata, Matsuura, Wei, 2006). If China invests in education, it will help Chinese companies to assimilate new technologies and move up the value chain.

Rozelle (2010) highlights the important role that education in China can play in fostering innovation and productivity growth. In order to accomplish this goal, it is necessary to ensure that students acquire skills in mathematics, science, English, and computers.

Rozelle (2010) argues that China needs to begin at the low end. Most rural children cannot afford pre-school, and even though elementary school is free attendance has declined because of poor accessibility and long, dangerous commutes. In addition,

poor health, sanitation, nutrition, and psychology management restricts students' ability to learn. Problems such as anemia, vitamin deficiencies, visual difficulties, and worms interfere significantly with learning.

At the high school level, tuition is expensive (20 times the per capita annual income of the rural poor) and little financial aid is available. As a result, only one in four rural students finish high school. This contrasts with other economies such as Japan, Korea, and Taipei, China, where nearly 100 percent of students finish high school.

At the college level, tuition is prohibitively expensive (60 times the annual per capita income of the rural poor). Only three out of one hundred are able to go to a tier 1 or tier 2 university (Rozelle, 2010).

Thus, there is a significant need for China to invest in rural education. Rather than channeling exorbitant amounts to employees of state owned enterprises and to investments in U.S. securities, the returns to China and its people would be much higher by investing in rural education, nutrition, and healthcare.

In addition, the Chinese government has recently decided to encourage migration to urban centers (see IMF, 2010). Since many cities in China are already very crowded, investing in public transportation, low cost housing, and educational opportunities for the children of migrants is of particular moment.

V. Reforming the Financial System

Chinese savers have huge amount of money in the Chinese banking system. They hold funds in the banking system because the range of other assets that they are allowed to hold is limited. The interest rate on deposits is currently set by the government at a

little over 2 percent. This is below the inflation rate of a little over 3 percent. Real interest rates earned by Chinese savers are thus negative. These artificially low interest rates thus reduce capital income and consumption in China.

The lending rate is also set at an artificially low level (currently about 5 percent). The large spread between the interest rate on deposits and loans has been maintained to preserve the profitability of banks. The beneficiaries are the four large state-owned banks (SOBs). Since these banks lend primarily to large corporations and state owned enterprises (SOEs), this policy benefits large companies by keeping the cost of capital artificially low. As discussed above, this has contributed to the inordinate profitability of SOEs in recent years. Savers have thus been subsidizing SOBs and SOEs through artificially low interest rates.

On the other hand, as Zoellick and Lin (2009) argue, the small and medium-size enterprises (SMEs) that employ 80 percent of workers have minimal access to credit. Because of this, wages and employment levels of ordinary workers is suppressed. China's banking system thus contributes to extreme inequality by benefiting workers at SOBs and SOEs at the expense of ordinary savers and workers at SMEs

The arrangement also contributes to saving-investment imbalances and surpluses in China. Rich citizens who benefit disproportionately from the current arrangement have lower spending propensities than ordinary workers. They thus save a larger proportion of these government generated windfalls, while ordinary workers would spend a larger proportion.

A second problem with the artificially low interest rates is that they lead to overinvestment in physical capital and to real estate bubbles. The World Bank (2010)

argues that the primary determinant of overinvestment and real estate speculation is the difference between interest rates and the expected returns to investing in physical capital and real estate.

China should thus aim to reform the financial system, and give greater play to market forces in setting interest rates and in allocating credit. Reforms could include offering savers a greater range of assets to invest in and reducing or eliminating the implicit subsidy that savers provide to large firms. Strengthening the local banking sector should also play an important role in order to help ensure that funds are available for SMEs.

Along with these reforms, China should alter the way that monetary policy is implemented. Currently the quantity of credit is the main monetary policy instrument. During the 2009 crisis, for instance, government authorities opened the credit spigot. Total credit increased by 31 percent of GDP. Many of these loans went to corporate vehicles affiliated with local governments. The assets securing these loans (e.g., expected future stream of payments associated with infrastructure projects) were often of questionable value, increasing the risks of non-performing loans accumulating in the future. Government directed lending can thus increase systemic risk by causing normal commercial criteria to become subordinated to broader economic objectives.

China should thus give greater play to traditional monetary policy instruments. The IMF (2010), for instance, argued that interest rates, reserve requirements, and open market operations should gain greater prominence relative to credit targets in the implementation of monetary policy.

While the financial reforms discussed above are important for China, they must be implemented carefully and thoughtfully. The sequencing of financial liberalization is especially important to avoid the buildup of systemic risk (see Yoshitomi, Azis, and Thorbecke 2003).

VI. Conclusion

China's transformation from being a closed economy to being the world's leading exporter has been phenomenal. It is a testament to the acumen of Chinese policy makers and the discipline of China's workforce.

However, as Chinese economists acknowledge, the growth path that China has followed has favored large state owned enterprises and wealthy urban residents at the expense of smaller firms and ordinary citizens. As former IMF Chief Economist Raghuram Rajan (2010) argues, China needs to start being kinder to its households.

This paper has considered policy changes that would cause this to happen. It first argues that continued accumulation of external reserves is a bad investment for China, and that moving instead towards an exchange rate regime characterized by a multiple-currency, basket-based reference rate with a reasonably wide band would be beneficial. It then documents the rise in profitability of state owned enterprises, and argues that these funds should be redistributed to the people who are the true owners of the SOEs. Investment in education would be important in this regard, especially since most students in the rural sector cannot afford high school or college. Reforming the financial sector so that savers can earn a higher return on their assets and so that SMEs can obtain access to funds would also improve the living standards of ordinary households.

China's development model has been based on households subsidizing large firms. These subsidies take the form of low interest rates, low wages, environmental degradation, and an undervalued exchange rate. They have caused exports and gross domestic product to grow at miraculous rates, but consumption as a share of GDP to fall to levels not seen in other economies. Now is an opportune time for China to focus on redirecting the fruits of growth away from large SOEs and SOBs and towards ordinary households and smaller firms.

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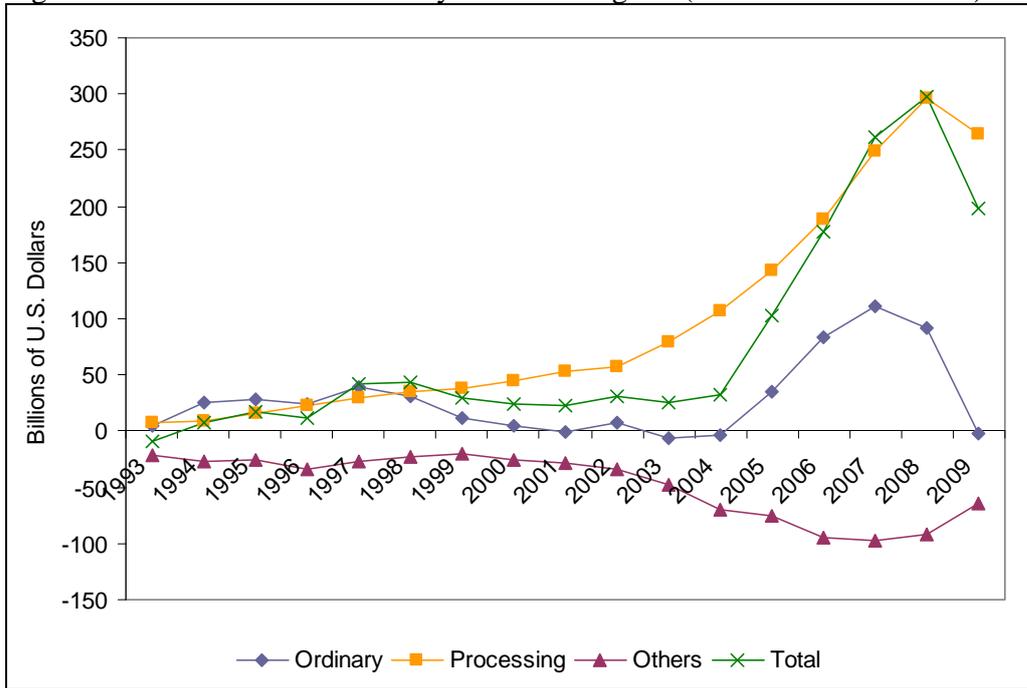
Table 1. China's Processing Trade, 2006-2009

	S. Korea	Taipei,China	ASEAN4	Japan	Singapore	Hong Kong	U.S.	Europe	R.O.W.
Imports for Processing (%)									
2006	15.08	19.04	10.51	15.89	2.63	2.11	5.23	4.99	24.52
2007	15.24	18.75	10.65	16.11	2.40	1.98	4.93	5.03	24.91
2008	15.63	18.07	10.26	16.20	2.28	1.62	5.20	5.72	25.01
2009	16.95	16.96	9.73	15.53	2.18	1.32	4.80	5.51	27.03
Processed Exports (%)									
2006	3.95	2.19	3.21	10.35	2.96	22.34	25.23	17.85	11.90
2007	3.98	1.92	3.25	9.35	2.84	22.42	23.54	18.59	14.10
2008	4.75	1.88	3.27	9.22	2.79	21.01	22.20	18.71	16.16
2009	4.96	1.86	3.40	9.13	3.36	20.57	22.68	17.50	16.54
Balance in Processing Trade (Billions of U.S. dollars)									
2006	(28.29)	(50.01)	(17.40)	1.76	6.65	107.24	111.98	75.06	(18.12)
2007	(31.57)	(57.18)	(19.18)	(1.63)	8.73	131.18	127.25	96.29	(4.65)
2008	(27.07)	(55.71)	(16.72)	0.99	10.19	135.76	130.20	104.67	14.46
2009	(25.50)	(43.72)	(11.41)	3.56	12.72	116.46	117.61	84.93	9.92

Notes: ASEAN4 includes Indonesia, Malaysia, Philippines, and Thailand. Europe includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Luxembourg, Netherlands, Italy, Portugal, Spain, Sweden and United Kingdom.

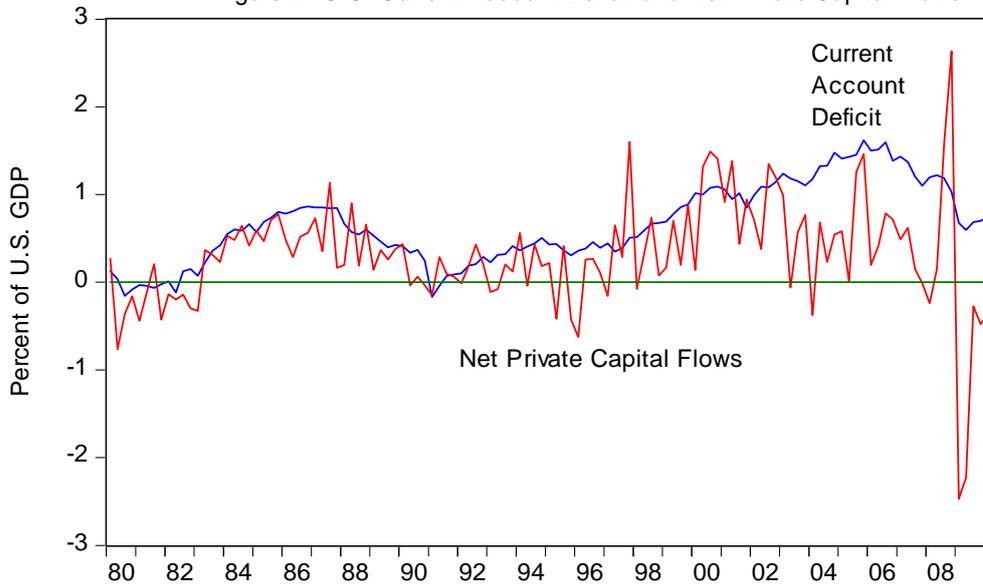
Source: China Customs Statistics.

Figure 1. China's Trade Balance by Customs Regime (Billions of US Dollars).



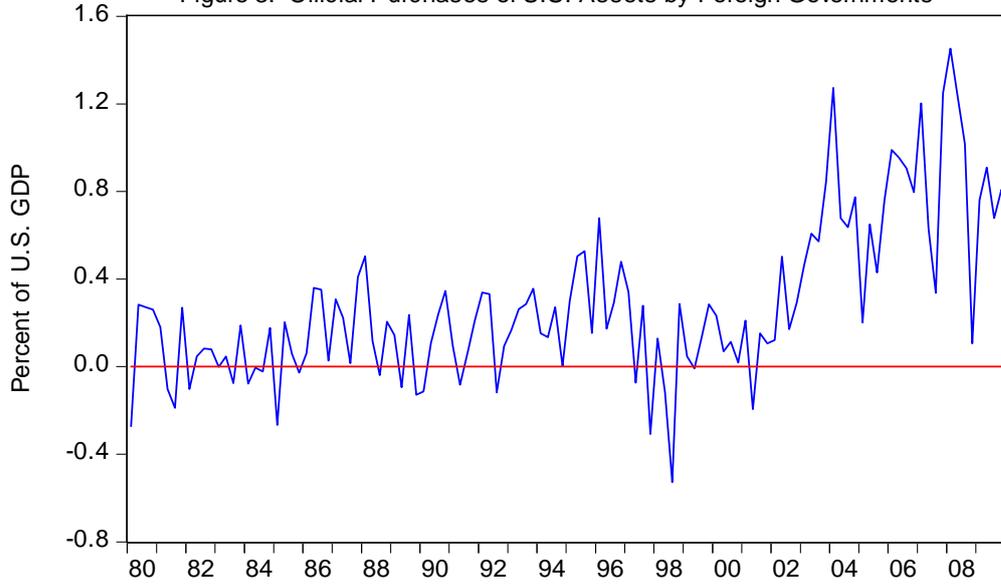
Source: CEIC Database

Figure 2. U.S. Current Account Deficit and Net Private Capital Flows



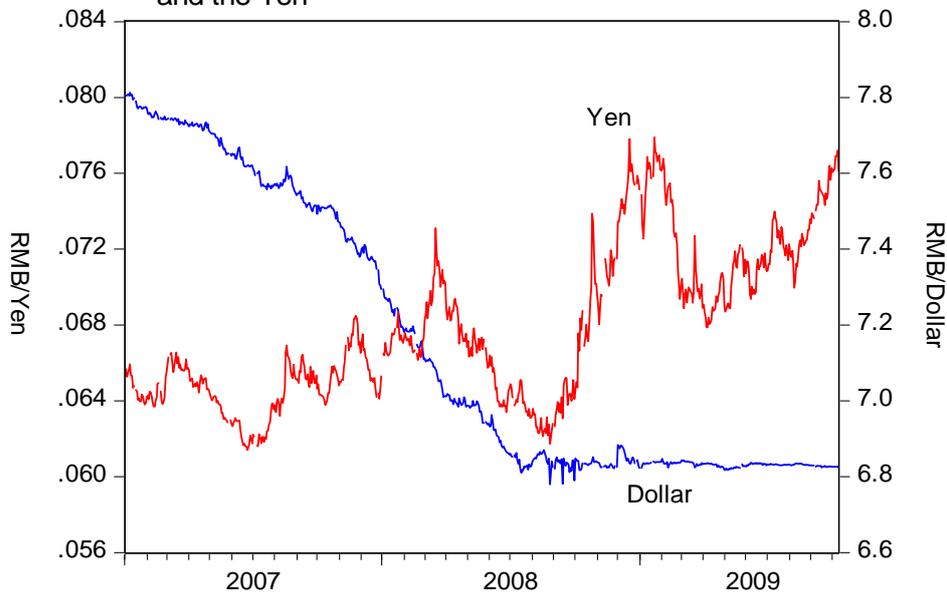
Source: Bureau of Economic Analysis

Figure 3. Official Purchases of U.S. Assets by Foreign Governments



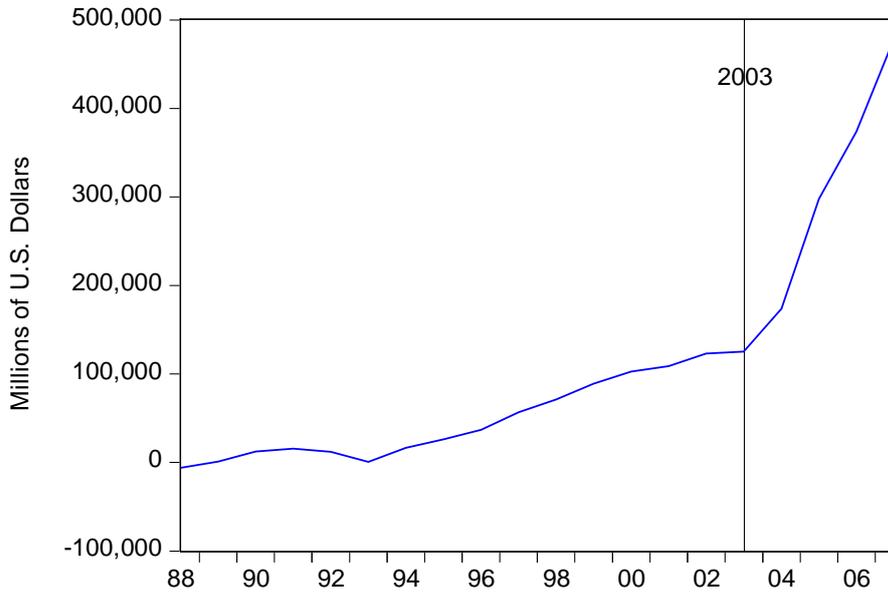
Source: U.S. Bureau of Economic Analysis

Figure 4. Renminbi Exchange Rate Against the Dollar and the Yen



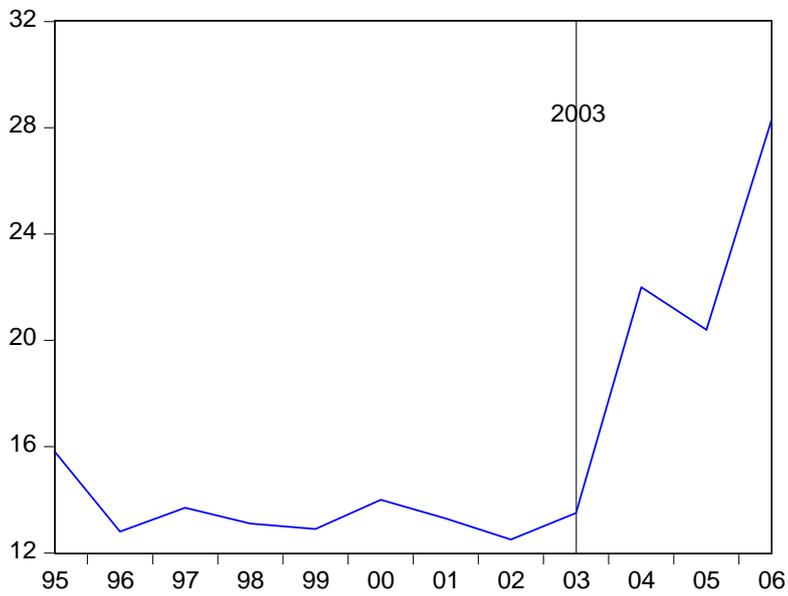
Source: Federal Reserve Bank of St. Louis FRED Database

Figure 5. China's Trade Balance



Source: CEPII-CHELEM Database

Figure 6. Corporate Saving in China as a Percent of GDP.



Source: Asian Development Outlook, 2009.