

June 29, 2007
At ADBI Conference Room, Tokyo

〈RIETI/ ADBI The 10th Anniversary of the Asian Crisis International Conference〉
10 Years after the Asian Crisis :
Are Mechanisms of Crisis Prevention Sufficient?

The 3rd Session :

“Can Asia Cope with New Currency and Financial Risks?”

Points in Question by Prof. Dr. YAMASHITA Eiji

1. Sustainability of the US Current Deficits

- Prof. Michael Dooley’s (Univ. of California, Santa Cruz) argument supporting the sustainability of US current account deficits of the BOP is not persuasive.
→ US current account deficits are unsustainable.
- The dollar’s free-fall would be the greatest threat to Asia, as well as the world economy as a whole.
- “The argument of surplus countries’ responsibility” for the adjustment of the global imbalances never functions well, because it leads to “exports of moral hazards (discredit exports) from deficit countries to surplus countries.
- The problem could not be solved by the dramatic increase in US savings rate, in other words substantial decreases in US consumption.

2. The Chinese RMB Issues

- The current Chinese foreign exchange rate system of the RMB since July 2005 is “the Multi-currency Basket-based Crawling Peg System” rather than “Managed Float”.
- It is needed for China to make the RMB “freely convertible currency” rather than to adopt “free float” as a foreign exchange rate system.

- It seems to me that “the Multi-currency Basket-based Crawling Peg System” is appropriate for China at this point, but the contents of the currency basket should be more simplified, and changed more suitable to the current Chinese economic relationship with the world. Particularly, the dollar’s weight in the basket should be much smaller.

3. The Global Influences of the Birth of the Chinese SFEIC (the State Foreign Exchange Investment Corporation)

- The impacts on the international flows of fund
The investment fund equivalent to CalPERS in terms of magnitude will emerge every year?.
- Could it to be a trigger to the regime change in global monetary system?
- For Japan, would it be “Karafune’s Visit to Japan”?.
*Karafune = the Chinese Ship, an analogy of “Kurofune” from the US at the end of Edo Era

4. The Meaning of the Establishment of the AMF

- It could be a real pressure for the IMF to begin thoroughgoing reforms.