
**The Role of the Chinese Dollar Peg
for Macroeconomic Stability
in China and the World Economy
by Gunther Schnabl**

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Summary of the Paper

- This paper provides a nice review of arguments why China should at least for now have a fixed (nominal) exchange rate with the US dollar.
 - Benefits for China
 - Macroeconomic: The peg appears to have stabilized the domestic price level and growth has been phenomenal under the peg.
 - Financial: Since the financial sector holds dollar assets, the peg reduces currency risk.
 - Benefits for the rest of the world
 - Macroeconomic: A stable and growing China can help stabilize the rest of the world.
 - Financial: More financial stability if the market anticipates a stable yuan/dollar rate?
 - “The Chinese yuan has assumed the role of an informal internal anchor beside the dollar as the external one” for East Asia.
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I am sympathetic to this argument, but...

- The peg may at least not be as bad for the US and the world as has been argued by members of the US Congress.
 - Ex: “China’s currency manipulation steals American jobs”
 - Michigan Congressman Mike Rogers 7/1/2010
 - However, the argument in the paper is much stronger for the peg being good for China than being good for the rest of the world.
 - There are at least perceived costs to the US from China’s policy – is there a way for China to provide incentives to the US to coordinate their policies?
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A Couple of Suggestions

- I found Figure 16 comparing the real exchange rate of the CNY with the Estonian kroon to be a particularly interesting figure and worthy of more discussion. Perhaps further historical examples from other countries' experiences would be helpful.
 - For example, the US experience in the early 1900s.
 - This paper is very much focused on a fixed exchange rate between CHY and USD. I would like to see some discussion about the role of China targeting a basket of currencies.
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Questions

- The paper claims that the Chinese dollar peg is important for macroeconomic stability of the world economy and suggests there be coordinated policy between the US and China to support the peg.
 - Does the US really have the incentive to do this?
 - When and how will China develop into a mature creditor economy?
 - Will the peg help or hinder this process?
 - What are the incentives for the US to help China in this process?
 - What about theories of decoupling?
 - Although world went into recession somewhat together, the recoveries are quite different across countries.
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Final Thoughts

- It is very hard to tease out the costs and benefits of the peg versus the crawling peg given the other economic events occurring during the last 15 years.
 - Further research is clearly warranted!
 - I think it is important to think about a short run, a medium run, and a long run here:
 - Short run: what is appropriate for China and the rest of the world as we recover from the Great Recession and the financial crisis?
 - Medium run: at some point China's financial markets may begin to mature – how does the world transition to include the CNY as a major world currency?
 - Long run: What are the best policies for China and the US once the CNY is fully a major world currency?
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