Collective China Wisdom

The International Economy took a survey on a subject of intense interest from the halls of the U.S. Congress to the port of Shanghai, from the Ruhr industrial zone in Germany to the thousands of small factories dotting southeast Asia.

The question?

"At what level should the Chinese revalue the renminbi to achieve some semblance of equilibrium?"

Over 60 distinguished experts weighed in.

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Just let it float.

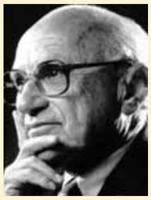
Milton Friedman, Senior Research Fellow, Hoover Institution, and recipient, 1976 Nobel Memorial Prize for Economic Science

Samuel Brittan, Columnist, *Financial Times*

L. William Seidman, Chief Commentator, CNBC

Christopher Whalen, Managing Director, Institutional Risk Analytics

"LET IT FLOAT after strengthening the banks."
—**Allan H. Meltzer,** Visiting Scholar, American Enterprise Institute



Milton Friedman

"REMOVE CAPITAL CONTROLS and let the renminbi float."
—**Nigel Lawson,** former Chancellor of the Exchequer

"LET IT FLOAT while largely unblocking the capital account."
—**Charles Wolf, Jr.,** Senior Economic Adviser and Corporate Fellow, International Economics, RAND

Keep the renminbi at present levels.

Richard N. Cooper, Maurits C. Boas Professor of International Economics, Harvard University

Gina Despres, Senior Vice President, Capital Research & Management Co.

Wendy K. Dobson, Director, Institute for International Business Rotman School of Management

Steve S. Forbes, Jr., President & CEO, Forbes Inc.

Yasuhiro Goto, Editorial Writer, *Nihon Keizai Shimbun*

Steve H. Hanke, Professor of Applied Economics, The Johns Hopkins University

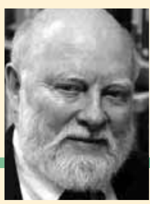
Mieczyslaw Karczmar, Deutsche Bank Securities

Ronald I. McKinnon, William D. Eberle Professor of International Economics, Stanford University

Edward Yardeni, Chief Investment Strategist, Oak Associates Ltd.

Steve Forbes

Richard N. Cooper



Ronald I. McKinnon

"Move to a trade-weighted index and float it within a band."

—**Teh Kok Peng,** President, GIC Special Investments Pte. Ltd.

Then tell the G3 to back off.

"A forced revaluation under pressure from the G3 would not only fail to correct global imbalances but would have a gross detrimental effect on the Chinese economy, which in turn would undermine growth and macroeconomic stability in Asia. Empirical evidence to support an undervalued renminbi is weak.

Recently, the IMF's report on China has observed, "It's difficult to find persuasive evidence that the renminbi is substantially undervalued." Furthermore, the U.S. Department of Commerce's trade statistics have exaggerated the bilateral imbalances.

The U.S. government should put its own economic house in order rather than act as an arrogant global trade bully."

—**Friedrich Wu,** Visiting Senior Fellow, East Asian Institute, National University of Singapore, and former economist, Singapore Ministry of Trade

Increase the renminbi by 5 percent…

Chris Leung Shiu Kay, Principal China Economist, DBS Bank

Jon Thorn, India Capital Fund

Daniel H. Rosen, Principal, China Strategic Advisory, LLC

Michael Kurtz, Non-Japan Asian Economics and Strategy, Bear Stearns Asia Ltd.

7 percent…

Gene H. Chang, Co-Editor, *China Economic Review,* Department of Economics, University of Toledo

What disequilibrium?

"In fact, I disagree with the premise that there is currently 'disequilibrium.'"

—**Michael Kurtz,** Non-Japan Asian Economics and Strategy, Bear Stearns Asia Ltd.

Take these steps to stabilize the renminbi…

"As a baby step right now to appease trading partner demands and show willingness to act when needed, revalue the renminbi 5 percent against U.S. dollar in the course of moving from a dollar peg to a currency basket peg. At the same time, however, announce that the next adjustment to the RMB (date unspecified) will entail widening its trading band concomitant with a further opening of the capital account outbound.

Announce quotas for qualified domestic (Chinese) financial institutions to convert up to 800 billion renminbi over three years for the purpose of diversifying their portfolios beyond Chinese securities.

The effect of this could well be a stable renminbi against the dollar, or even conceivably a devaluation, depending on the pace of Chinese equity market reform rather than trade politics.

Daniel Rosen

Also, regarding the phrasing of your question, I note that the notion of "equilibrium" can't really be applied just in terms of dollar/renminbi. It really needs to be addressed in the broader context of cross rates among the major trading currencies, as I'm sure you agree.

—**Daniel H. Rosen,** Principal, China Strategic Advisory, LLC

Increase the renminbi by 10 percent…

Michael J. Boskin, Stanford University

Jeffrey A. Frankel, James W. Harpel Professor, Kennedy School of Government, Harvard University

Christopher W. Hughes, Senior Research Fellow and Deputy Director, Centre for the Study of Globalisation and Regionalisation

Yasuo Kanzaki, Special Advisor, Nikko Citigroup Ltd.

Roger M. Kubarych, Senior Economic Adviser, HVB America, Inc.

Ulrich Ramm, Chief Economist, Commerzbank AG

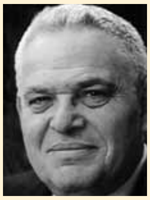
Horst Siebert, President Emeritus, Kiel Institute for World Economics

Michael J. Boskin

Jeffrey A. Frankel

Or 15 percent…

Stephen Axilrod, Global Economic Consultant, and former Staff Director for Monetary and Financial Policy, Board of Governors of the Federal Reserve System



Edward N. Luttwak

Geoffrey Bell, President, Geoffrey Bell and Company, Inc.

Bronwyn Curtis, Managing Editor, Bloomberg Television

Wilhelm Hemetsberger, Member of the Managing Board, Bank Austria Creditanstalt AG

David M. Jones, Chairman of the Board, Investors' Security Trust and author of *Unlocking the Secrets of the Fed* (Wiley, 2002)

Peter B. Kenen, Walker Professor of Economics and International Finance Emeritus, Department of Economics, Princeton University

Jim O'Neill

Richard C. Koo, Chief Economist, Nomura Research Institute, Ltd.

Edward N. Luttwak, Senior Fellow, Center for Strategic and International Studies

Doug Noland, Financial Markets Strategist, David W. Tice & Associates

Jim O'Neill, Head of Global Economic Research, Goldman Sachs International

Susan M. Phillips, Dean, School of Business & Public Management, George Washington University, and former Governor, Federal Reserve

Daniel K. Tarullo, Professor of Law, Georgetown University Law Center, and former Assistant to the President for International Economic Policy

Ted Truman

Edwin M. Truman, Senior Fellow, Institute for International Economics, and former Assistant Secretary of the Treasury for International Affairs

Murray Weidenbaum, Honorary Chairman, Weidenbaum Center on the Economy, Government, and Public Policy

15–20 percent, eventually

"I believe that the eventual equilibrium level for the renminbi if it were allowed to float would be a 15–20 percent increase in renminbi value against the dollar. I suspect, however, that there would likely be a period of sharp upward and downward movements as the market sought equilibrium."

—**Greg Mastel,** Chief International Trade Adviser, Miller & Chevalier, Washington, D.C., and former Chief International Trade Advisor and Chief Economist for the Senate Finance Committee

Let's get the band back together.

"Increase 5–10 percent, then managed band."

—**Arminio Fraga Neto,** Gávea Investimentos, and former President, Central Bank of Brazil

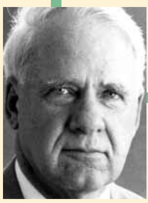
"Increase 15 percent, together with other Asian currencies."

—**Wilhelm Hemetsberger,** Member of the Managing Board, Bank Austria Creditanstalt AG

Increase the renminbi 20 percent…

James R. Schlesinger, Senior Advisor, Lehman Brothers

Norbert Walter, Chief Economist, Deutsche Bank Group



James R. Schlesinger

Increase 25 percent…

Catherine Mann, Senior Fellow, Institute for International Economics

Tom Schlesinger, Executive Director, Financial Markets Center

Tatsuya Terazawa, Director, Northeast Asia Division, International Trade Policy Bureau, Ministry of Economy, Trade, and Industry, Japan

Owen Ullmann, Deputy Managing Editor, Editorial Page, *USA Today*

Catherine Mann

Tatsuya Terazawa

It's all politics.

"World capital markets already have achieved some semblance of equilibrium—one based in part on the renminbi's dollar peg. And if China should allow her currency to trade freely, the market will determine an appropriate revaluation that will achieve a new equilibrium. This is a political decision for the Chinese government; and the critical factors that will determine it, especially the link between domestic growth and social stability, are barely related to the capital markets."

— **Robert J. Shapiro**
Managing Director, Sonecon, LLC, and former U.S. Under Secretary of Commerce for Economic Affairs

No effect on trade dispute

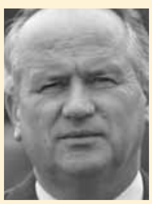
"It is difficult for China to decrease exports to the United States and European Union even if the renminbi is appreciated 30 percent because 60 percent of China's exports are made by foreign firms which built factories in China. The only way to soften the trade dispute is for the Chinese government to introduce self-restriction in quantities in some products such as garments and furniture."

—**Yasuhiro Goto,**
Editorial Writer,
Nihon Keizai Shimbun

There's no genuine Chinese exchange rate.

"As there is no such thing as a genuine Chinese exchange rate but only China's exchange rate with the rest of the world, China should only revalue if all the other mis-valuations are tackled at exactly the same time."

—**Heiner Flassbeck,** Chief, Macroeconomic and Development Policies Branch, United Nations Conference on Trade and Development, Geneva



Increase 30 percent…

Gerhard Fels, former Director, Institut der Deutschen Wirtschaft, Cologne

Eamonn Fingleton, Tokyo-based author and economic commentator

Warwick Lightfoot, economist and special adviser to Chancellors of the Exchequer Lawson, Major and Lamont

Arturo C. Porzecanski, Managing Director and Head of Emerging Markets Sovereign Research, ABN AMRO

John J. Sweeney, President, AFL-CIO

Andrew Szamosszegi, LECG, Washington

Makoto Utsumi, President and CEO, Japan Credit Rating Agency, Ltd.

John Williamson, Senior Fellow, Institute for International Economics

John J. Sweeney

John Williamson

Gerhard Fels

Or more.

"Increase more than 30 percent (but unlikely)."

—**Tadashi Nakamae,** President, Nakamae International Economic Research

Tadashi Nakamae

"Make it 40 percent."

—**Peter Morici,** Professor of International Business, University of Maryland

Achieving equilibrium is impossible.

"I do not think there is any level of exchange rate that can produce some semblance of equilibrium given that China still has almost unlimited supply of cheap but well-qualified workers. Among the 1.2 billion Chinese, it is said that only 400 million actually benefited from all the reforms that took place during the last twenty years. But that still leaves 800 million to go. Thus the amount of revaluation will only determine how far the factories will move inland, not how far the trade balance will improve, at least in the medium term. However, in the short-run, some impact will be felt, and that is the best policymakers can hope for until all excess labor in China are absorbed into the 'global economy.'

For the initial revaluation, I have suggested 15 percent to my friends in Beijing because anything less than 10 percent will be just a noise in the market and force everyone to expect the next revaluation, while anything over 20 percent may cause too much domestic dislocation in the short-run. Given how cautious they are on this issue, however, they may well pick a number that is well below 15 percent."

—**Richard C. Koo,** Chief Economist, Nomura Research Institute, Ltd.

Timing is everything.

"My advice:

Short-term: Over the next three years, widen the renminbi trading band by 3 percent plus/minus the People's Bank of China's central rate, positioning for re-pegging the renminbi to a basket of currencies.

Medium-term: For the three years after that, approximately 2009–11, re-peg the renminbi to a basket of currencies of China's major trading partners, and use a crawling peg system, like those of Taiwan and Singapore, to allow currency flexibility.

Longer-term: After banking reform is completed, free float the renminbi."

—**Chi Lo,** Economist and author of *The Misunderstood China* (Prentice Hall, 2004)

Sky's the limit.

"When an exchange rate has been artificially pegged for a prolonged period, the necessary market adjustment is greater than many people think."

—**Warwick Lightfoot,** economist