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Yusuke Horiguchi


Allan Meltzer


Adam Posen

well as increasing political pressure from the United States and Europe, would eventually force most of these countries to rethink their policies.

Against this view, Yusuke Horiguchi argued that criticism of Asian exchange rate policies was misplaced—at least as far as Europe was concerned. In his view, the adjustment burden on Europe is independent of whether Asian currencies appreciate or not. Rogoff said that there had been few cases where governments decided to unilaterally initiate a substantial appreciation of their currency; he cited Italy in 1926 (40 percent) and Japan in 1971 (17 percent) as rare exceptions. On the basis of historical experience, he argued that current account adjustments eventually involved both an adjustment in the exchange rate and a narrowing of relative growth rate differentials.

Michael Rosenberg supported this view. He expected the Japanese yen to be the first currency to appreciate during a "second wave" of dollar weakness, and others, including China's, to follow in later stages. Allan Meltzer and Adam Posen pointed out that this step would require difficult political decisions by Japan, partly because it conflicts with Japanese attempts to establish greater exchange rate coordination with Southeast Asian economies. Posen suggested, however, that the scope for yen appreciation was limited by the continued need for monetary easing and the weakness of the domestic economy.

Most participants also agreed that any decision about the Chinese currency peg had to be viewed largely in domestic policy terms, notwithstanding calls by U.S. and Japanese manufacturers to allow the renminbi to appreciate. For Truglia and Meltzer, the renminbi exchange rate reflected China's long-standing desire to acquire sufficient reserves to withstand economic shocks, such as those that hit Mexico and the Asian crisis countries in the 1990s. While this objective has largely been achieved, the country is now reluctant to face a possible appreciation, given deflationary pressures both in its domestic economy and in Hong Kong SAR.

Of course, Posen said, a change in Chinese exchange rate policy need not necessarily lead to an appreciation, particularly if it is accompanied by a relaxation of capital controls that allows some pent-up savings to exit in search of higher returns. He and Truglia pointed out that China's overall foreign trade was broadly balanced, that Chinese exporters were not competing directly with high-end U.S. manufacturing companies, and that China already had a saving rate of close to 50 percent. Any exchange rate move would hardly be large enough to offset extremely low labor costs, so it is unlikely that Chinese trade flows would be significantly affected. Echoing this view, Rogoff expressed support for the current level of the renminbi but called for a more flexible exchange rate regime. ■

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Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
August 4	1.52	1.52	2.01
August 11	1.53	1.53	2.02

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/cgi-shl/bur.pl?2003).

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