China, The U.S. and Financial Crises

By

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1.) Since 1990, and up to 2009, China's Gross National Income has grown by 14 times in current U.S. dollars, following the Atlas Method of the World Bank.

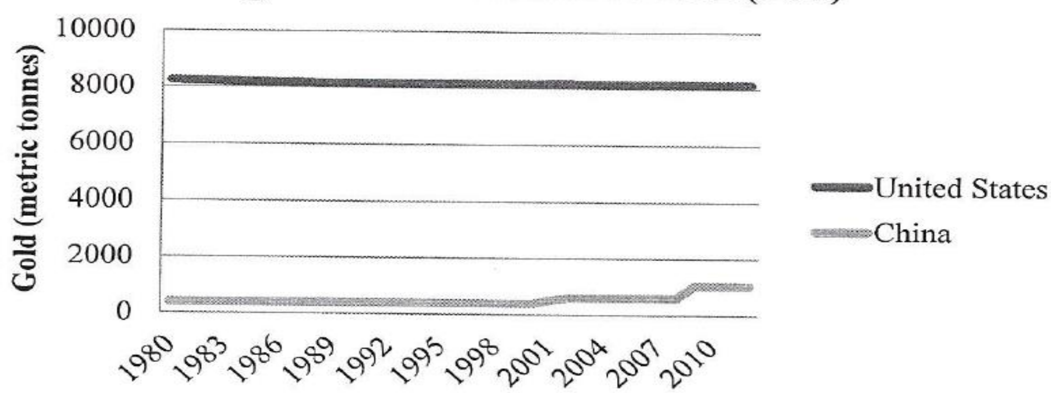
2.) China's exports have expanded by 233 times since 1990, and up to 2009, while imports have increased 237 times, when the World Bank method and OECD national accounts data are used.

3.) Foreign direct investment in China in current U.S. dollars, using the balance of payments approach of the IMF, and in net terms, has expanded 11 times in the period, which is less than GNI.

4.) The external debt stocks of China in current U.S. dollars have expanded by only five times during the 1990-2009 period, but the short-term component of those World Bank estimates, have expanded much faster (27 times).

5.) There has been a worry about the U.S. debt to China, but it does not consider that the international reserves of the U.S., have grown 89 times since 1990. By the end of 2009 they stood at 2 trillion 454 billion including gold (the U.S. has 8,000 tons of gold see Table 1). These statistics are from the U.S. government (see Fig. 1).

Fig. 1 Gold Reserves 1980-2012 (Feb.)



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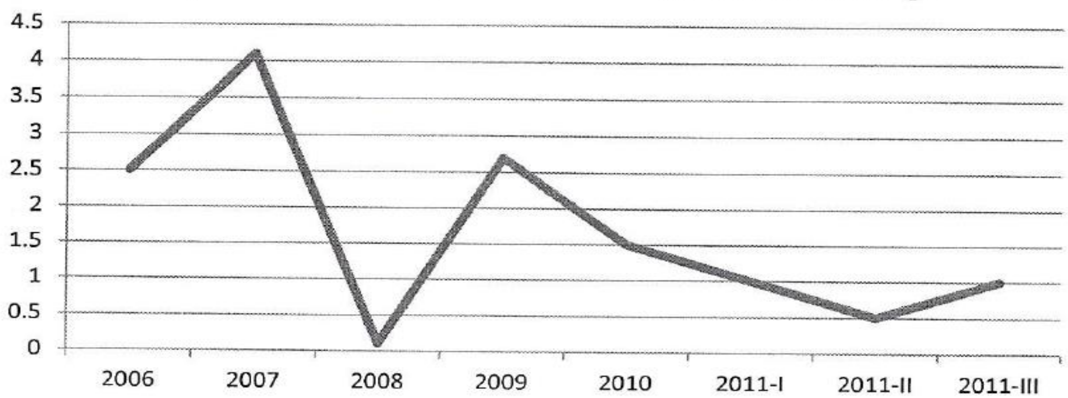
6.) In addition, the rest of the world continues to invest in the U.S. Between 1994 and 2009, such foreign investments undertaken directly, which means that foreigners have control of their assets, and are not just lending them, expanded by three times. China has very few direct investments in the U.S.

7.) From the year 2003 to the end of 2010, the gross external debt of the U.S. has doubled. According to U.S. government data it now stands at $14.5 trillion, slightly below the country's annual gross domestic production (GDP).

8.) The latter contracted from the beginning of 2008, but by the end of 2010 had regained its previous peak. During 2011 it has continued to expand, and now stands at approximately $15 trillion, thus slightly above its external debt.

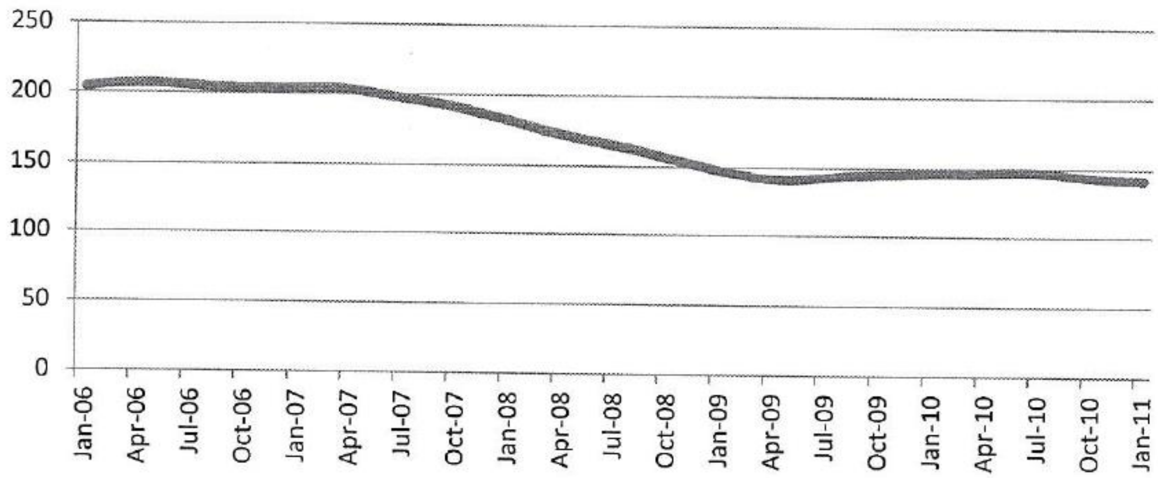
9.) In contrast to the recent experience of China, inflation in the U.S.A., after peaking at a yearly 4.1% in 2007, has remained tame in 2010 and 2011, averaging just 1.0% (see Fig. 2). Thus, contrastingly with China, it will not require a restraining of its monetary expansion, particularly since fiscal policy will have to become contractionary in the last quarter of 2012.

Fig. 2 Consumer Price Index - U.S. Cities Average



10.) Like China, the most dangerous sector for the health of the U.S. economy is in housing and its related expenditures. Although a small part of GDP, the crisis in these sectors continue to be severe in both countries. Since the beginning of 2006 the prices of single and multifamily (apartments) units have been contracting as shown by the nationally indicative Case-Schiller index. Coincident with the recession, the decline became severe at the end of 2009 (the end of the U.S. contraction), but has not recuperated totally since then, after suffering, from peak to through, a decline in prices of more than 25%. (see Fig. 3).

Fig. 3 Case-Schiller Index (Composite-20) - U.S.



11.) As recently pointed out by our most acclaimed student Professor Carmen Reinhart, a pervading financial crisis, spurred by continuing decline or stagnation in housing and its related sectors, may portend a continuing economic malaise, if not a double-dip recession. This is the argument in her book <u>This Time is Different</u>, published in 2009, and co-authored by Ken Rogoff, both of them at Harvard. If policy makers deal with the crisis as a run-of-the mill downturn in the cycle of the economy, their quick fixes may hamper aggregate demand and supply. It should be understood that a deep and protracted crisis portends a long and extended recovery. This is particularly the case for unemployment.

12.) Economic crises have been recurrent in the World for at least 800 years. They result in economic upswings bolstered by widespread business optimism and made good by credit expansion (private, public and external). When the economy falters and the financial sector weakens, public and internal debt soar (a significant part of which was hidden in the woodwork) and default of private (part of which are absorbed by the government) and public debt ensues, leading to restructuring or repudiation. These downturns are more protracted and severe when they originate in the world's financial centers.

13.) Many of these events have lasted for long periods of time, and have been frequent in the last 80 years. For the major ones, their duration have been of about 20 years (half in expansion and half in contraction). The contractionary phase of these cycles (like the present one) result in lower GDP growth and housing prices, and higher unemployment than in the preceding decade. Inflation is also lower. The expansionary phase of the cycle is fueled by credit expansions and rising leverages, which are undone in the almost as long downturns.

Some Data about the Chinese Economy

Indicators	1990	1991	1992	1993	1994
Exports of goods and services (current US$)	57,374,000,000.00	65,897,999,808.00	78,817,000,448.00	86,557,000,000.00	118,927,000,000.00
Imports of goods and services (current US$)	46,706,000,000.00	54,297,000,000.00	73,819,000,000.00	98,349,000,000.00	111,570,000,000.00
GNI, Atlas method (current US$)	370,030,849,751.93	403,235,407,942.62	455,105,613,910.04	488,418,491,406.35	551,665,035,086.64
External debt stocks, total (DOD, current US$)	55,301,411,000.00	60,259,176,000.00	72,427,953,000.00	85,927,702,000.00	100,456,856,000.00
External debt stocks, long-term (DOD, current US$)	45,515,195,000.00	49,479,176,000.00	58,662,953,000.00	70,631,702,000.00	82,973,856,000.00
External debt stocks, short-term (DOD, current US$)	9,317,000,000.00	10,780,000,000.00	13,765,000,000.00	15,296,000,000.00	17,483,000,000.00
Foreign direct investment, net (BoP, current US$)	2,657,000,000.00	3,453,000,000.00	7,156,000,000.00	23,115,000,000.00	31,787,000,000.00

Indicators	1995	1996	1997	1998	1999
Exports of goods and services (current US$)	147,240,000,000.00	171,677,995,072.00	207,239,000,128.00	207,425,150,000.00	218,496,000,000.00
Imports of goods and services (current US$)	135,282,000,000.00	154,127,000,000.00	164,416,000,000.00	163,589,000,000.00	189,799,000,000.00
GNI, Atlas method (current US$)	643,558,986,348.97	788,442,634,711.35	919,039,497,977.77	981,790,952,824.00	1,058,369,318,080.13
External debt stocks, total (DOD, current US$)	118,089,788,000.00	128,817,086,000.00	146,696,958,000.00	143,981,963,000.00	152,064,375,000.00
External debt stocks, long-term (DOD, current US$)	95,764,338,000.00	103,410,006,000.00	115,232,958,000.00	126,641,963,000.00	136,884,375,000.00
External debt stocks, short-term (DOD, current US$)	22,325,450,000.00	25,407,080,000.00	31,464,000,000.00	17,340,000,000.00	15,180,000,000.00
Foreign direct investment, net (BoP, current US$)	33,849,200,000.00	38,066,000,000.00	41,674,000,000.00	41,117,000,000.00	36,978,000,000.00

Indicators	2000	2001	2002	2003	2004
Exports of goods and services (current US$)	279,561,125,000.00	299,409,174,000.00	365,395,328,000.00	485,003,217,000.00	655,826,577,000.00
Imports of goods and services (current US$)	250,687,640,000.00	271,324,953,000.00	328,012,656,000.00	448,924,240,000.00	606,542,934,000.00
GNI, Atlas method (current US$)	1,168,882,685,483.08	1,273,245,034,405.16	1,406,823,611,777.14	1,631,445,831,109.89	1,937,940,080,594.59
External debt stocks, total (DOD, current US$)	145,710,501,000.00	184,803,308,000.00	186,114,100,000.00	208,431,303,000.00	247,679,295,000.00
External debt stocks, long-term (DOD, current US$)	132,630,501,000.00	128,503,308,000.00	120,434,100,000.00	120,338,303,000.00	131,909,295,000.00
External debt stocks, short-term (DOD, current US$)	13,080,000,000.00	56,300,000,000.00	65,680,000,000.00	88,093,000,000.00	115,770,000,000.00
Foreign direct investment, net (BoP, current US$)	37,483,300,000.00	37,357,000,000.00	46,789,569,178.78	47,228,992,592.04	53,131,430,172.13

Indicators	2005	2006	2007	2008	2009
Exports of goods and services (current US$)	836,887,800,000.00	1,061,681,000,000.00	1,342,206,000,000.00	1,581,713,000,000.00	1,333,300,000,000.00
Imports of goods and services (current US$)	712,090,100,000.00	852,769,000,000.00	1,034,729,000,000.00	1,232,843,000,000.00	1,113,200,000,000.00
GNI, Atlas method (current US$)	2,292,369,097,300.77	2,690,529,538,718.38	3,279,398,317,975.11	4,042,332,475,847.80	4,856,148,305,641.59
External debt stocks, total (DOD, current US$)	283,985,954,000.00	325,259,634,000.00	373,773,030,000.00	378,244,548,000.00	428,442,239,000.00
External debt stocks, long-term (DOD, current US$)	135,718,954,000.00	151,882,634,000.00	170,075,030,000.00	191,056,548,000.00	187,933,239,000.00
External debt stocks, short-term (DOD, current US$)	148,267,000,000.00	173,377,000,000.00	203,698,000,000.00	187,188,000,000.00	240,509,000,000.00
Foreign direct investment, net (BoP, current US$)	67,821,043,048.68	56,934,665,750.72	121,418,331,634.95	94,320,092,013.51	34,294,456,701.25

Code	Indicator Name	Source
NE.EXP.GNFS.CD	Exports of goods and services (current US$)	World Bank national accounts data, and OECD National Accounts data files.
BN.KLT.DINV.CD	Foreign direct investment, net (BoP, current US$)	International Monetary Fund, Balance of Payments Statistics Yearbook and data files.
DT.DOD.DECT.CD	External debt stocks, total (DOD, current US$)	World Bank, Global Development Finance.
DT.DOD.DLXF.CD	External debt stocks, long-term (DOD, current US$)	World Bank, Global Development Finance.
DT.DOD.DSTC.CD	External debt stocks, short-term (DOD, current US$)	World Bank, Global Development Finance.
NE.IMP.GNFS.CD	Imports of goods and services (current US$)	World Bank national accounts data, and OECD National Accounts data files.

Table 1

WORLD GOLD COUNCIL

WORLD OFFICIAL GOLD HOLDINGS June 2010*

	Tonnes	% of reserves**		Tonnes	% of reserves**
1 United States	8,133.5	72.8%	51 Ukraine	27.2	3.9%
2 Germany	3,406.8	68.1%	52 Ecuador	26.3	23.1%
3 IMF	2,966.8	[1]	53 Syria	25.8	[1]
4 Italy	2,451.8	67.0%	54 Morocco	22.0	3.8%
5 France	2,435.4	65.6%	55 Sri Lanka	15.3	4.2%
6 China [2]	1,054.1	1.6%	56 Korea	14.4	0.2%
7 Switzerland	1,040.1	24.1%	57 Cyprus	13.9	43.1%
8 Japan	765.1	2.8%	58 Serbia	13.1	3.6%
9 Russia	668.6	5.5%	59 Netherlands Antilles	13.1	38.5%
10 Netherlands	612.5	55.2%	60 Czech Republic	12.8	1.2%
11 India	557.7	7.5%	61 Jordan	12.8	3.9%
12 ECB	501.4	27.1%	62 Qatar	12.4	2.3%
13 Taiwan	423.6	4.3%	63 Cambodia	12.4	13.7%
14 Portugal	382.5	82.2%	64 Laos	8.7	32.8%
15 Venezuela	363.9	47.6%	65 Mexico	8.0	0.3%
16 Saudi Arabia [3]	322.9	2.8%	66 Latvia	7.7	4.1%
17 United Kingdom	310.3	16.6%	67 El Salvador	7.3	9.5%
18 Lebanon	286.8	26.1%	68 CEMAC [6]	7.1	1.9%
19 Spain	281.6	37.1%	69 Guatemala	6.9	4.7%
20 Austria	280.0	56.1%	70 Colombia	6.9	1.0%
21 Belgium	227.5	34.8%	71 Tunisia	6.8	2.6%
22 Algeria	173.6	4.3%	72 Macedonia	6.8	11.8%
23 Philippines	164.7	13.7%	73 Ireland	6.0	10.9%
24 Libya	143.8	5.3%	74 Iraq	5.9	0.5%
25 Singapore	127.4	2.4%	75 Lithuania	5.8	3.5%
26 Sweden	125.7	10.2%	76 Mauritius	3.9	6.6%
27 South Africa	124.7	11.2%	77 Bangladesh	3.5	1.3%
28 BIS	120.0	[1]	78 Canada	3.4	0.2%
29 Turkey	116.1	5.7%	79 Slovenia	3.2	12.9%
30 Greece	112.2	75.0%	80 Aruba	3.1	16.5%
31 Romania	103.7	8.1%	81 Hungary	3.1	0.3%
32 Poland	103.0	4.6%	82 Kyrgyz Republic	2.6	6.0%
33 Thailand	84.0	2.2%	83 Tajikistan	2.5	[1]
34 Australia	79.9	7.4%	84 Luxembourg	2.2	10.9%
35 Kuwait	79.0	13.2%	85 Hong Kong	2.1	0.0%
36 Egypt	75.6	8.1%	86 Iceland	2.0	1.9%
37 Kazakhstan	73.6	9.5%	87 Papua New Guinea	2.0	3.0%
38 Indonesia	73.1	3.9%	88 Trinidad and Tobago	1.9	0.8%
39 Denmark	66.5	3.3%	89 Suriname	1.9	9.8%
40 Pakistan	65.4	16.7%	90 Albania	1.6	2.6%
41 Argentina	54.7	4.3%	91 Yemen	1.6	0.9%
42 Finland	49.1	18.0%	92 Mongolia	0.9	2.7%
43 Bulgaria	39.9	9.4%	93 Cameroon	0.9	1.0%
44 WAEMU [4]	36.5	10.9%	94 Paraguay	0.7	0.6%
45 Malaysia	36.4	1.4%	95 Honduras	0.6	[1]
46 Peru	34.7	3.7%	96 Dominican Republic	0.6	0.9%
47 Brazil	33.6	0.5%	97 Gabon	0.4	0.8%
48 Slovakia	31.8	63.6%	98 Mauritania	0.4	6.1%
49 Belarus [5]	28.5	17.0%	99 Central African Republic	0.3	6.1%
50 Bolivia	28.3	12.7%	100 Chad	0.3	2.2%

WORLD OFFICIAL GOLD HOLDINGS June 2010*

	Tonnes	% of reserves**
101 Congo	0.3	0.4%
102 Fiji	0.3	1)
103 Malawi	0.3	8.1%
104 Uruguay	0.3	0.1%
105 Estonia	0.2	0.3%
106 Chile	0.2	0.0%
107 Malta	0.2	1.4%
108 Costa Rica	0.1	0.1%
109 Haiti	0.0	0.2%
110 Burundi	0.0	0.4%
World	30,462.8	1)
All Countries	27,069.0	10.7%
Euro Area (incl. ECB)	10,798.2	58.9%
CBGA 1 signatories 7)	12,113.0	47.6%
CBGA 2 signatories 7)	11,932.2	50.1%
CBGA 3 signatories 7)	11,964.0	50.1%

NOTES

* This table was updated in June, 2010 and reports data available at that time. Data are taken from the International Monetary Fund's International Financial Statistics (IFS), June 2010 edition, and other sources where applicable. IFS data are two months in arrears, so holdings are as of April 2010 for most countries, March 2010 or earlier for late reporters. The table does not list all gold holders: countries which have not reported their gold holdings to the IMF in the last six months are not included, while other countries are known to hold gold but they do not report their holdings publicly. Where the WGC knows of movements that are not reported to the IMF or misprints, changes have been made. The countries showing as having 0.0 tonnes of gold report some gold but less than 0.05 tonnes to the IMF.

**The percentage share held in gold of total foreign reserves, as calculated by the World Gold Council. The value of gold holdings is calculated using the end-April gold price of $1179.25 per troy ounce (there are 32,151 troy ounces in a metric tonne). Data for the value of other reserves are taken from IFS, table 'Total Reserves minus Gold'.

1. BIS and IMF balance sheets do not allow this percentage to be calculated. In the case of any countries, up to date data for other reserves are not available.
2. The purchase of 454 tonnes of gold by China, announced in April 2009 took place over a six-year period from 2003 - 2009.
3. Gold data have been modified from First Quarter 2008 as a result of the adjustment of the SAMA's gold accounts.
4. West African Economic Monetary Union including the central bank.
5. As of May 1. Including gold on inward swap and excluding gold on outward swap.
6. Central African Economic and Monetary Union including the central bank.
7. Signatories to the first Central Bank Gold Agreement of September 1999 were the ECB and other Eurozone central banks (excluding Greece which was not a Eurozone member in 1999) plus Sweden, Switzerland and the UK. The second Agreement announced in March 2004 originally had the same signatories with the addition of Greece and the exclusion of the UK. Slovenia joined the agreement in December 2006, just prior to their adoption of the euro. Cyprus and Malta joined in January 2008, just following their adoption of the euro. The third Agreement, which commenced in September 2009, had the same signatories as CBGA 2 with the addition lof Slovakia.