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# FAIR CURRENCY COALITION

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## FACT OF THE WEEK (January 19, 2010)

### THE TRUTH BEHIND CHINA'S "SAVINGS GLUT"

Treasury Secretary Geithner has clearly articulated the need for China and the United States each to adjust its formula for economic growth. Geithner and many others maintain that China needs to consume and import more and save, invest, and export less. America, conversely, needs to consume and import less and to save, invest, produce, and export more.

Many Americans misunderstand the savings component of Geithner's macroeconomic prescriptions. In particular, we tend to conceive of China's excess of savings as the mirror image of our own deficit of savings, as if the issue hinged on household choices between consuming and saving.

In fact, China's surging savings "glut" is hardly a household issue at all. Consider these facts:

- Household savings have actually been quite stable. Based on data released by the People's Bank of China, personal savings amounted to 20.3 percent of China's GDP in 1992 and to 20 percent in 2007. As China's GDP has expanded, consumption has risen at the same rate.
- Public sector savings – such as budget surpluses and pension funds – have risen from 4.4 percent of GDP in 1992 to 8.1 percent in 2007.
- However the big change is in corporate savings, largely those of state-owned enterprises. They have soared from 11.3 percent of GDP in 1992 to 22.9 percent in 2007.
- As a result, total savings in China have jumped from about 36 percent of GDP in 1992 to over 50 percent in recent years. This is an astounding figure. If Americans were to save at the same rate, we would have salted away more than seven trillion dollars in 2009.

The key to understanding how this can possibly happen, even in a Confucian society like China, is the rapid growth of corporate savings. China's export-oriented producers gain a windfall every time they export. They do not have to be highly profitable on an operating basis so long as they can ship the goods

abroad and pocket the hefty export subsidy arising from the renminbi's undervaluation.

Chinese corporations reportedly often avoid taxation, rarely pay dividends, and don't share profits with their workers. They retain their net revenue as a giant slush fund for investments in China and abroad. Corporate savings thus are the engine of the Chinese growth machine and a major cause of the imbalances that threaten the global economy.

Taking a slightly different approach, Jonathan Anderson of the Swiss financial services giant UBS arrived at similar conclusions. (To see his excellent paper, "The Myth of Chinese Savings," [click here](#).) Anderson argues that: "... in some sense these are not really *Chinese* savings at all. Of course the excess income accrued to mainland companies, but that income was earned by taking industrial market share away from foreign producers."

Like the Fair Currency Coalition, Anderson maintains that appreciation of the renminbi would be a "very efficient way of reducing the savings rate" and bringing China's trade into better balance.

The Congress can help by passing The Currency Reform for Fair Trade Act, H.R. 2378 and S. 1027, the only WTO-consistent legislation that addresses the subsidy effects of currency undervaluation.

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