

Saving and External Imbalances in China

Dennis Tao Yang

The Chinese University of Hong Kong
Hong Kong Institute for Monetary Research

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Summary

Over the last decade, the internal and external macroeconomic imbalances in China have risen to unprecedented levels. In 2008, China's national savings rate soared to over 53 percent of GDP, whereas the current account surplus exceeded 9 percent of GDP. In view of these observations, the current paper presents a unified framework for understanding the structural causes of these imbalances. I argue that the imbalances are attributable to a set of policies and institutions embedded in the economy and that China's accession to the World Trade Organization has dramatically amplified the effects of these structural distortions. China's demographics and population control policies are also important factors behind the high saving rate. I document major trends in aggregate savings, investment, trade, and net foreign asset positions in China, and explore options for policy reforms aimed at rebalancing the Chinese economy.