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Irony of US criticising China for its too-high savings rate

By Stephany Griffith-Jones and Francisco Rodriguez
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From Prof Stephany Griffith-Jones

and Prof Francisco Rodriguez.

Sir, It seems rather audacious that the US Treasury team is calling for a wholesale and quick reform of Chinese financial institutions and policies ("US calls on China to open up finance sector", October 17).

China's strategy of gradual and controlled financial and capital account liberalisation has proved very effective in protecting it from the financial instability that has hit other emerging markets. So many developing economies - often influenced by Washington - liberalised the financial sector and the capital account rapidly; frequently these rapid liberalisations were soon after followed by major crises, crises that China has been able to avoid.

Furthemore, China's high savings rate is an important factor in explaining its outstanding growth performance. Theoretical and empirical research in the field of economic growth has emphasised the role of a country's savings in fostering economic development. It is therefore ironic that the US, with its very low savings rate - which is a significant factor in current global imbalances - is criticising the most successful developing economy for having too high a savings rate! It is a bit like General Motors telling Toyota how to become profitable.

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