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FACT OF THE WEEK

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CHINA'S EMBARRASSMENT OF RICHES: HOGGING RESOURCES AT THE WORLD BANK

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China defies simple descriptions. Running out of water, it has built hundreds of golf courses and subsidizes agricultural crops for export. An industrial powerhouse, it has 700 million people living in mostly backward conditions on the land. Still largely a poor country, China nevertheless is home to the world's largest collection of billionaires and a government that has amassed a \$2.4 trillion hoard of hard currency reserves that dwarfs all others thanks to its illegal currency peg.

This brings us to the International Bank for Reconstruction and Development (now known as the World Bank) and its statement of purpose contained in Article I of its charter. Specifically, the purpose point in Section (iii) of Article I reads:

To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

One might conclude that, consistent with its charter, the World Bank would be winding down its China operations because multilateral lending is a zero-sum game. Every dollar lent to China is a dollar that can't be borrowed by a poor country in Africa, Latin America, or Asia. China's gain is a loss for Benin, Bolivia, Bangladesh, and every other country in need of a loan. In contrast to these genuinely poor countries, China has been accumulating an additional \$2 billion dollars in official (foreign currency) reserves net of its purchases of foreign energy, mineral deposits, and technology every few days!

Instead winding down its operations, we find that the World Bank in 2009:

- Had about 75 projects underway in China, just about the same amount it had underway at the end of the 2006 Fiscal Year;
- At that time had more than \$10 billion in loans outstanding to China, slightly higher than in the previous two years;
- Had committed \$710 million in 2009 for the Wenchuan earthquake recovery project; and
- At the same time committed \$600 million to railway projects and \$931 million for a program to reduce carbon emissions.

This money was lent on top of the significant funds the World Bank previously had loaned to China for a host of railway, highway, wind farm and other infrastructure projects in recent years. On their face, most of the projects seem to have a laudable objective. Perhaps each of these projects is well conceived and performing as intended. We hope so. In light of its mandate to maintain an “equilibrium in balance of payments,” however, the Bank needs to explain:

- Why is the Bank continuing to lend so much to China?
- Why are the Bank’s scarce resources not being used for projects in countries that lack excessive currency reserves?
- Why isn’t China a major donor to, rather than a continuing borrower from, the Bank?

For the U.S. Department of the Treasury, the question is: Why do you continue to approve loans to countries that clearly have no financial need for them?

For the U.S. Congress, the question is: Why don’t you instruct the Treasury to use common sense and oppose any further lending to *any* country that has official reserves well in excess of what it needs to finance imports and service foreign debt?

Clearly, China’s hogging of World Bank resources is another reason why the United States should take action against China’s illegally undervalued currency. A good start would be for Congress to enact a countervailing duty remedy as provided for in 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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