Discussion

A Model of Chinese Capital Account Liberalisation/ He and Luk

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Summary

- **Model**
  - Homogeneous households trade on equities and bonds from US and China over infinite-horizon to hedge against productivity shocks and investment efficiency shocks.
- **Before** capital account liberalization
  - only US bonds and Chinese equities are tradable
- **After** capital account liberalization
  - both equities and bonds from US and China are tradable

Summary

- Model fitness
  - The model generates the stylized fact of ‘long debt, short equity’ in China before capital account liberalization.
- Calibration Results
  - China and US will reduce holdings of each other’s bonds after the liberalization
  - China and US will increase holdings of each other’s equities
  - FDI into and out of China grows significantly.

Contribution to the literature

- Relative simple yet accommodative model
  - It has enough freedom to explain the stylized fact
  - It is capable of generating clearly refutable predictions that provide testable hypotheses for future research
  - Very clearly presented and justified
- Lots of interesting findings and implications
  - On bond, equity, FDI, reserves
- Policy importance
  - RMB internationalization
  - Off-shore RMB development

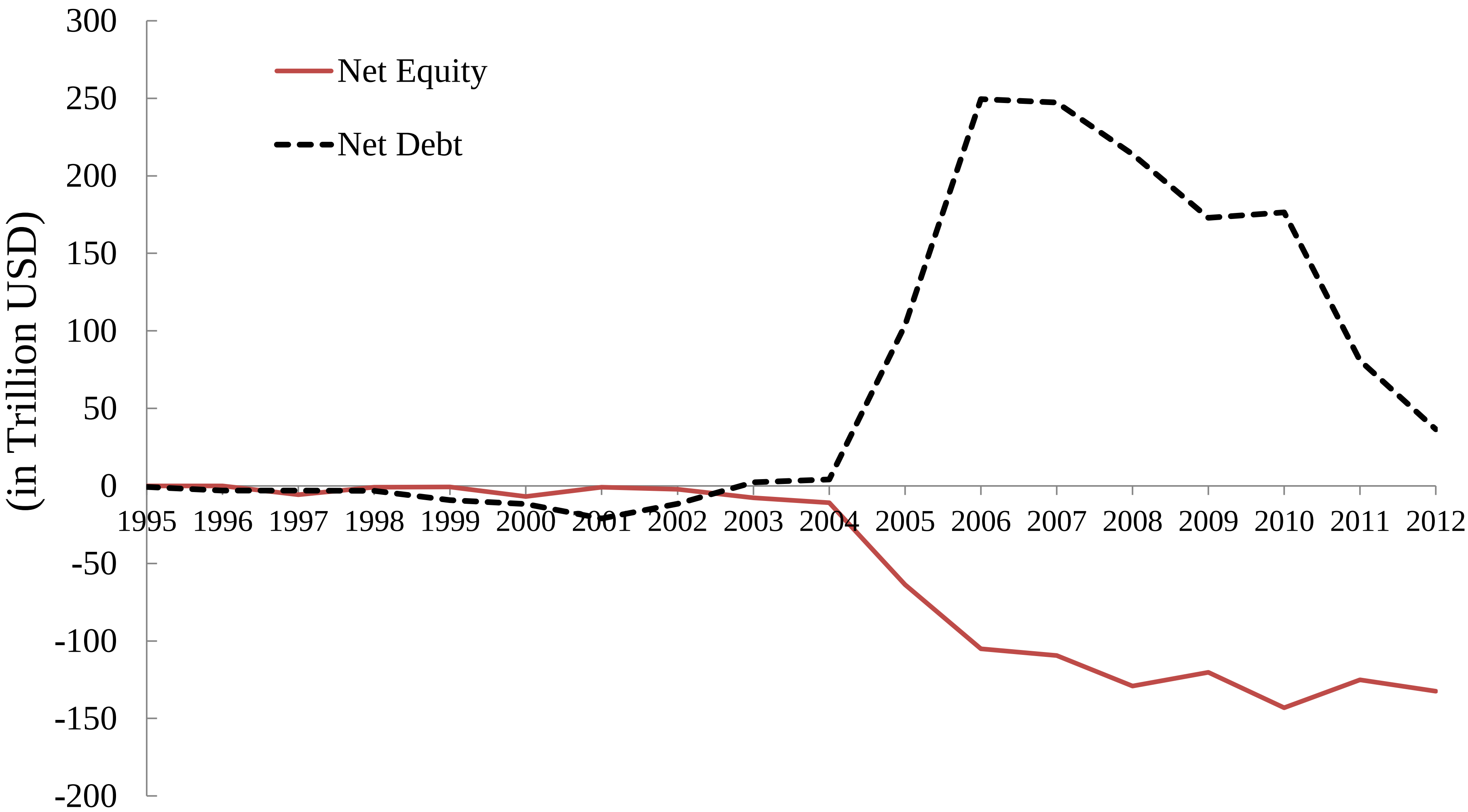
Major Comments

- Is the result on ‘long debt, short equity’ before capital account liberalization robust?
- The assumption that Chinese households trade US bonds but not equities while US households trade Chinese equities but not bonds may bias the result.
- Alternative definition of pre-liberalization:
  - Chinese households can trade on US bonds and equities
  - US households cannot trade either Chinese bonds or equities.

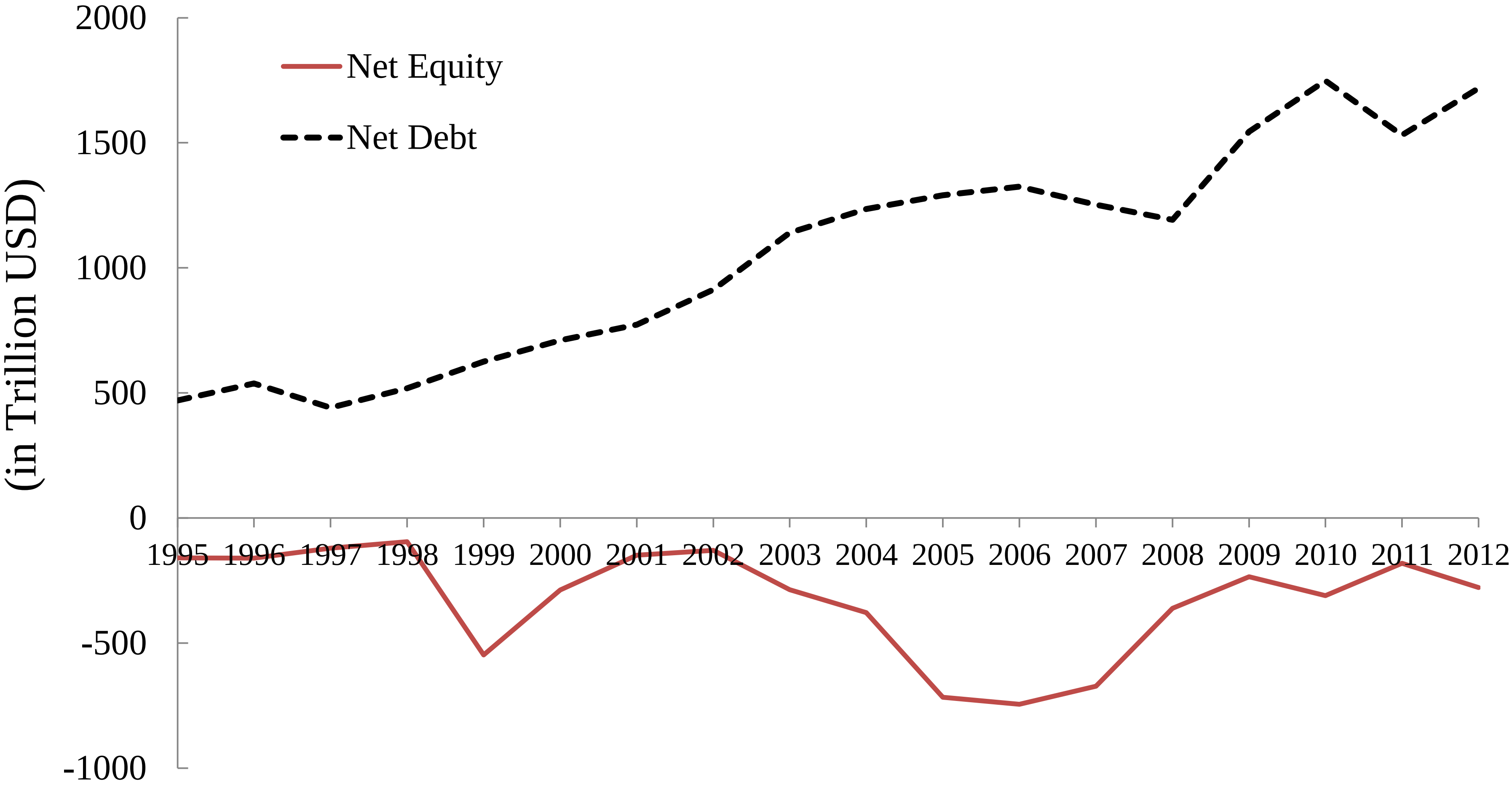
Major Comments

- The ‘long debt, short equity’ phenomenon is not unique to China.
- The model that generates such a qualitative property might as well explain the evolutional pattern of capital accounts in countries that share this property.
- But countries sharing this property do not necessarily evolve in the same way after capital account liberalization.

China's Net Investment Position



Japan’s Net Investment Position

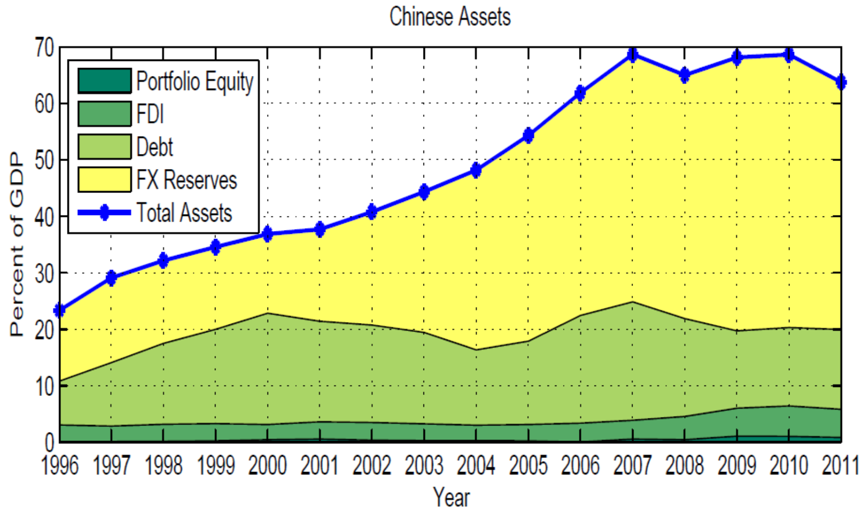


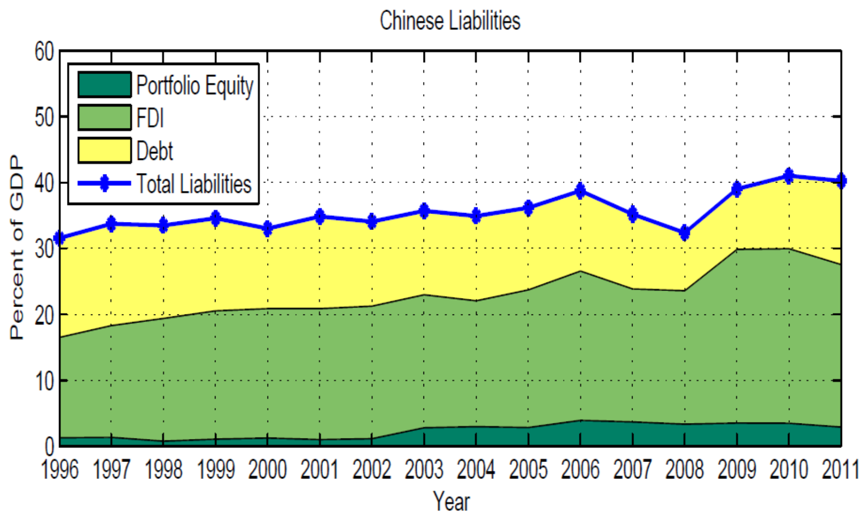
Major Comments

- Suggestions:
  - Support the model with quantitative measures, i.e. compare the calibrated data with actual data
    - Time series, Moments, jumps, etc
  - Test the degree of fitness in two steps:
    - Step 1: only one asset, US bond, is tradable.
      - Calibrate the model to fit the qualitative property before China open its equity market.
      - Predict the portfolio choice after China open its equity market (but not debt market) and compare the counterfactual with the actual property.
    - Step 2: Two assets, US bond and Chinese equity are tradable.
      - Repeat the above process and predict the impact of complete capital account liberalization.

Minor comments

- Fig 1: use the same marker for the same item





Minor comments

- Outline bilateral investment position between China and US, instead of China and the rest of the world.
- Introduction: summarize key stylized facts of China’s current account and compare them with those of other countries.
- Section “3 Model Solution”: consider move it to appendix.
- Consider changing ‘current account’ to ‘capital account’?