China Persuasive Outline

I. Introduction

A. Attention Getter

In China, many central banks have decided on stabilizing inflation to be their basic objective, when formulating monetary policies. Inflation targeting is one of the fiscal policy frameworks that the different developing and developed countries implement purposely to achieve price stability between them.

B. Link/explanation/source

According to Ito and Hayashi, Inflation targeting is the workable structures, which the central bank in the country uses for its communication and accountability (Freedman & Okter-Robe, 2010). The defined numerical objective that the central bank would like to achieve on a pre-empted inflation keeps the prices at a stable rate, thereby making the country not to experience skewed prices during inflation.

C. Revealing the Topic

Ito and Hayashi indicated that some central banks have been on the forefront and have clear guidelines of adopting such policies (Kent & Guttmann, 2004). Others have not taken the bold step of declaring clearly that they have a guideline for adopting the policies, but simply follow what their counterparts do. In reality, the practice is gaining popularity at a faster rate due to its importance.

D. Justification/Relevance

In fact, central banks consider price stability as an important element of controlling inflation, therefore, they objectively advise the countries not to consider price stability a policy rule, but set it as the main objective.

E. Preview

Through inflation targeting, the government is obliged to keep inflation at relatively low levels. This could be probably achieved by institutional reforms in both the financial and fiscal sector. Moreover, setting the targets above those of developed economies is another practical way of keeping the emerging markets safe from the impacts of inflation. This is practical because during inflation an upsurge in the commodity prices do not go beyond the value of hard currencies such as the dollar and sterling pounds. Therefore, when the county is targeting, and sets the targets above such currencies, it would not for sure experience a great impact during inflation, whether, or not anticipated.

II. Body

A. Problem Review

The implementation of inflation targeting in many countries in China region was due to recommendations from the International Monetary Fund (IMF). In 1997-98, China experienced the worst financial crisis that made it necessary to formulate internal mechanisms, which would help in mitigating similar situations (Mishikin, 2004).). Despite the challenges, which the countries experience during the implementation, its necessities make it compelling for them to adopt the policies as part of price stabilization objective. Particularly, the central bank is concerned with the ways, in which inflation targets and exchange rates correlate.

B. Review Part one, preview part two

In essence, their correlation helps the central bank to predict future inflation so that adequate measures could be devised to counter the impacts of inflation. Primarily, price stabilization is the most important structural changes, which a country should enforce as an intervention measure that might lead to a reduction of the inflation impacts.

C. Review Problem, preview cause

During implementation, Ito and Hayashi claim that the price stability focus should not be narrow to ignore the occasional changes, which characterize the exchange rate. Pursuing an organized exchange rate administration and inflation target could benefit the countries in the Asian continent since the region is developing to be commercially oriented.

One of the systems applicable in inflation targeting is the currency basket, where the basket differs in terms of composition and elasticity, and crawl speed is given priority. The country categorizes and trades in the currencies in question according to their weight. Elasticity here involves the width of the currency, or the extent to which it could be traded. In this case, the country could be elastic or inelastic depending on the fiscal policy that the country embraces. Finally, the crawl speed determines the extent to which the country should adjust its central rate, within a certain time frame depending on the need for the adjustment (Mishikin, 2004).

D. Cause

Using of a system of basket band, it is notable that a country's basket value, in terms of monetary aspect, has a significant impact on their trading partners regionally and globally. In this regard, the basket value changes the pricing strategy, thus, shaping the trend and nature of inflation. Though difficult, when the exchange rate is predictable, many potential business people are able to decide on their investment strategies in the region. Alternatively, its unpredictability causes anxiety, thereby, paralyzing business operations in the region. Considering this remark, unpredictable price fluctuation would make the countries lose their status and recognition as an emerging world market in China.

E. Review part one, preview part two

The central banks in China prioritized price stability in formulating their monetary policy, except in Hong Kong. While they aim at stabilizing prices, the Hong Kong Monetary aims to achieve stability in their exchange rate against the dollar. The central bank of Indonesia aims at achieving stability on their currency's internal and external value.

The fiscal analysts argue that South Korea and Indonesia, among other Asian countries, have experienced positive inflation targeting, though their methodologies and approaches have significant differences. The central bank acknowledges the challenges, which each country faces during the process of implementation.

F. Review Problem and cause, preview solution

South Korea adopted inflation targeting in 1998, two years ahead of Indonesia, which embraced the practice in 2000. Alternatively, Indonesia has a higher rating, which stands at about 9%, above the Korea's target approximation (Filardo & Genberg, 2010). In addition, not only South Korea and Indonesia practice the system, but a number of other countries drawn worldwide. It is significant that the emerging countries set their targets at a relatively higher rate so that during inflation the marginal different secure them from the adverse effects of price fluctuations. Therefore, if the country does not target at all, or it sets the targets far below the levels of developing economies, any slight shake at the international fiscal system will shake it and cause inflation.

G. Solution

To demonstrate that the less developed economies have higher targets than the advanced ones, table one shows that Indonesia, being an emerging market, sets its targets as high as 9 percent, with a marginal difference of plus or minus 1 percent, South African targets ranges between 3 and 6 percent, Philippines account for an approximation of 4.5 to 5.5 percent (Ito & Hayashi, 2012). This is apparently higher than the rates that other countries with more stable economies have set to encounter inflation.

The developed countries have almost set their inflation targets at close levels. For instance, New Zealand's rate is set at between 1 and 3 percent, Canada accounts for 2 percent, while the United Kingdom accounts for 2.5 percent (Ito & Hayashi, 2012). For example, the United Kingdom has an advantage since it has the strongest currency in the world, and the strength gives it a better chance of withstanding inflation when it occurs. More other developed economies have low targets.

H. Review governmental steps, preview individual step

Since they have stable monetary values, sound and workable financial and fiscal policies, economies flexible to inflation, they cannot experience an adverse impact from even unpredictable inflation. Where the inflation is predictable, the higher economies are capable of adjusting their fiscal system and make alterations to the targets so that at the time inflation hits, their prices would not be much affected as the case of emerging economies.

Such policies, despite being difficult to formulate and implement, are necessary for a country to achieve meaningful economic development. Anticipated high inflation does not favor business operations, thus, entrepreneurs would shy from investing in regions, which are volatile to inflation. This interferes with the country's development since it is through such important investments that the country might gain economic advancement.

III. Conclusion

From a theoretical perspective, inflation targeting involves the formulation of a solid fiscal structure that helps a given country to accomplish a financial goal (Debelle, 2002). In turn, it makes a country's monetary policy to be more effective even during inflation and a looming financial crisis. Sometimes, it might target a specific kind of inflation or many other products.

There are specific issues, which the emerging market should consider when implementing inflation targeting, because their level of development and technological application is relatively low compared to the development partners. First, the developing economies should understand that their economic statistic, might not reflect the reality, or sometimes might not be easily accessible (Debelle, 2002). This fact could lead to misleading data, and cannot be used in comparison with those developed states.

Second, the structural changes vary among countries, therefore, the ones applicable in one country could not tell the reality. For example, the Asian countries are characterized by larger structural changes, which could probably accommodate the policy changes geared towards inflation targeting implementation. The anticipated economic changes could lead to price bias, which is a threat to inflation. Therefore, each country should adopt an appropriate inflation target that suits its fiscal policy and structural system. If the targets meet such criteria, the country would be certain of achieving their main aim, which is price stability, either as a short term or long term goal. Indeed, this would keep the country off the impacts of occasional fluctuations, which are evidenced in developing economies.