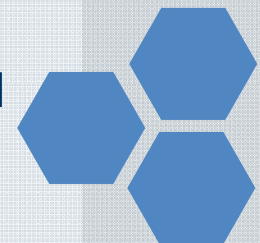


Group 8



The Exchange Rate Regime & International Trade in China over a long run

Leith Ben
Anne Luna
Camille Daniel





A short video =D

按 Esc 退出全屏模式。

USD/JPY	82.1000	↓ 0.1700	EUR/USD	1.3800	↑ 0.001
[53.49mln]	Wangfujing	49.06	↑ 0.54	1.11%	[48.45mln] Meng

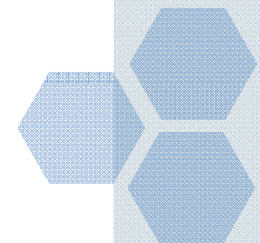
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CNTV



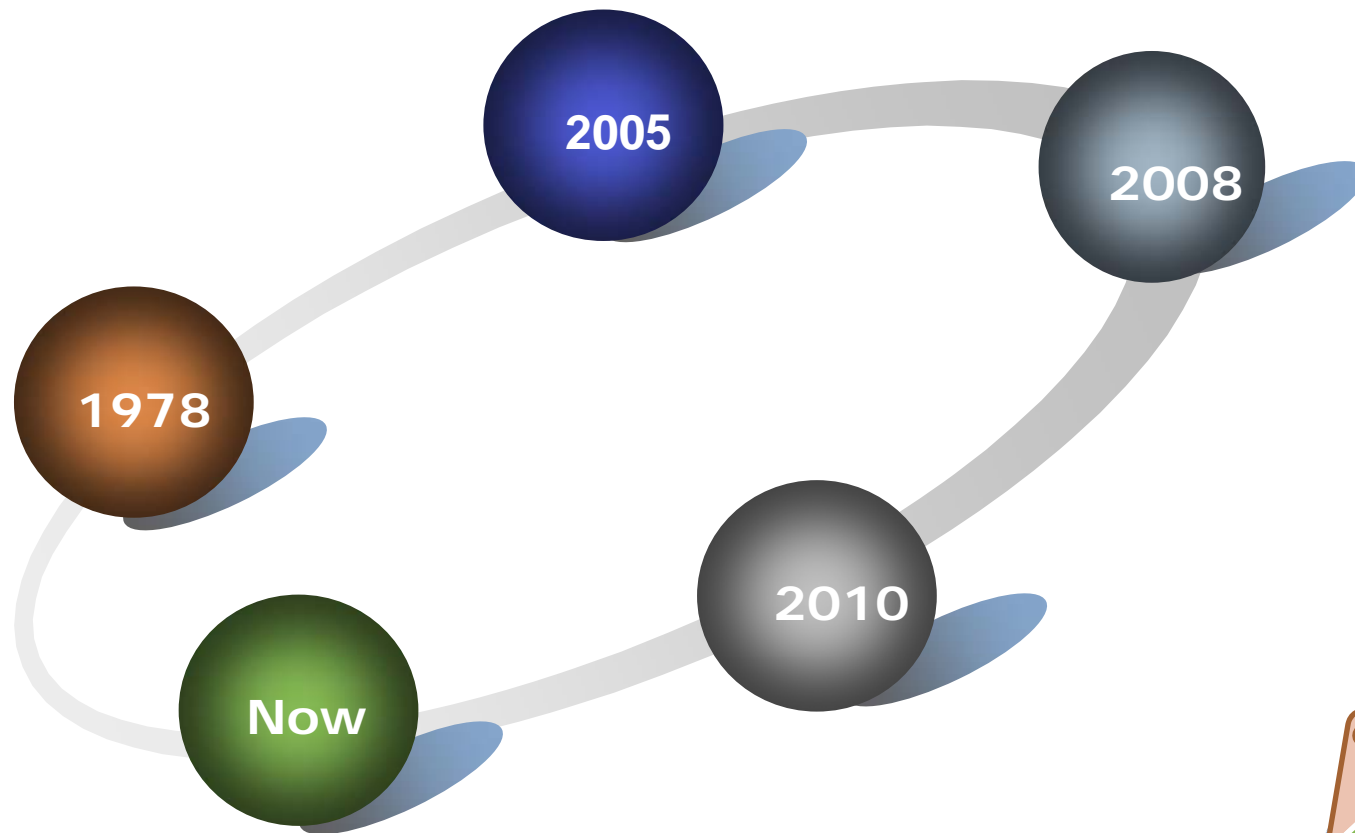
Contents

- 1 History and Current Situation**
- 2 Policies Adopted**
- 3 Opinions**
- 4 Conclusion**





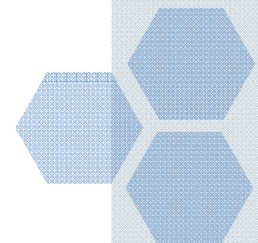
History of the RMB





1978-2005

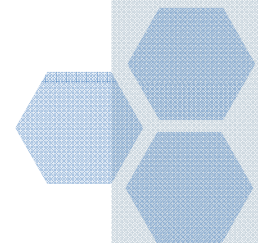
- ❖ Gradual currency reform in line with open market reforms implemented by Deng Xiaoping
- ❖ Increased investment, increased relative economic freedom
- ❖ Comparatively lower tariffs
- ❖ Previously unrealistic exchange rate : 1.51-2.46 RMB to the dollar - overvalued





2005-2008

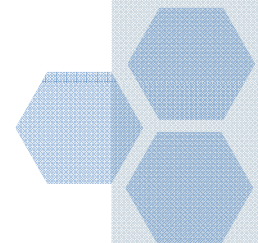
- ❖ Peg removed on the currency – one off revaluation of 8.11RMB
- ❖ Currency movements could only be within a +/- 0.3% range daily
- ❖ Band increased to +/- 0.5%
- ❖ Pre-GFC RMB had appreciated by around 22%





2008-2010

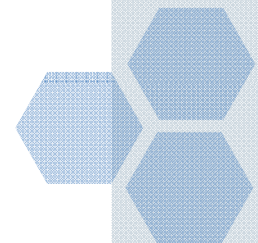
- ❖ Global Financial Crisis – China moved back to a peg in order to safeguard domestic industries
- ❖ A controversial measure, which will be discussed in depth later





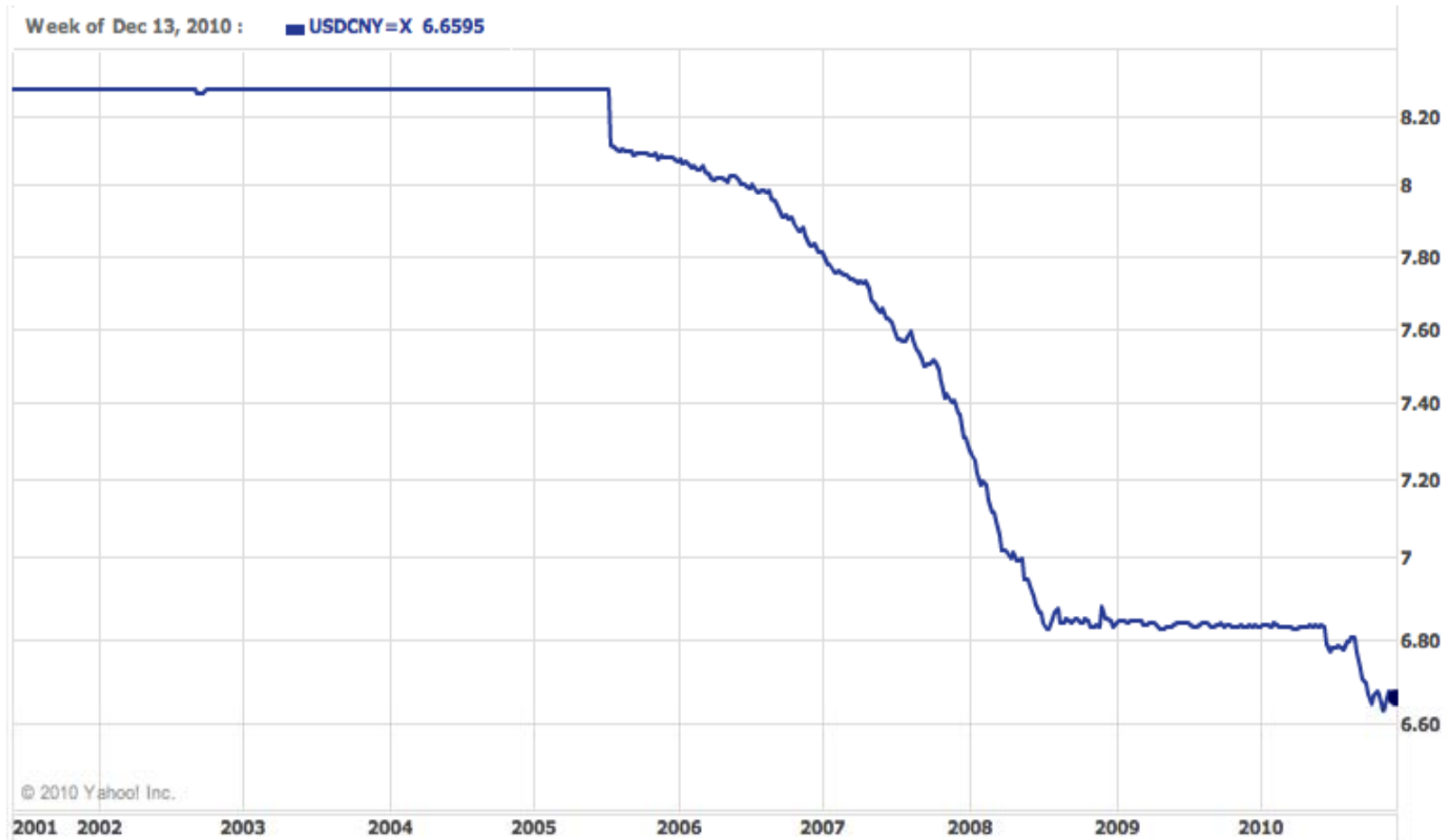
2010 onwards

- ❖ China signals the desire to move back to a more flexible exchange rate regime
- ❖ This year, the RMB has already appreciated 2%





RMB vs. USD Graph



Source – Yahoo Finance





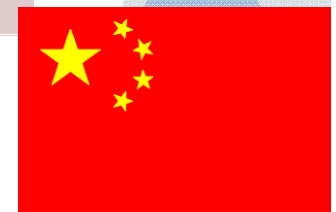
Current RMB Exchange Rate

China's Exchange Rate Regime, International Trade since 1980



Currency	= CNY	1 CNY =
US Dollar	6.6546	0.1503
Euro	8.7385	0.1144
British Pound	10.3019	0.0971
Japanese Yen	0.0794	12.5879
Australian Dollar	6.6357	0.1507
Canadian Dollar	6.5457	0.1528
Swiss Franc	6.9463	0.1440
Norwegian Krone	1.1151	0.8968
Hong Kong Dollar	0.8560	1.1682

As at 1300 Chinese Time
22/12/2010 - Bloomberg





Current Controversy

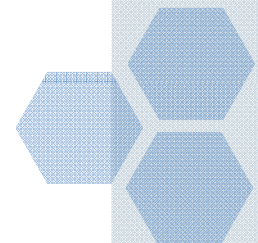
❖ **China is accused of undervaluing the RMB**

■ How?

- Buying \$1 billion U.S. dollars in RMB everyday
- Keeps demand for U.S. dollar high, RMB low
- Causes U.S. dollar to appreciate relative to the RMB

■ Why?

- By keeping RMB artificially low, China's exporters have major advantage
- T-Shirt Example





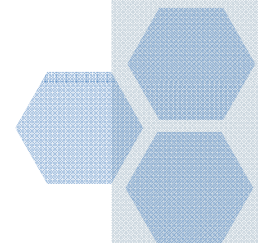
Positive Effects of Undervaluing RMB

❖ For China:

- Allows China's exporters to have advantage over competition
- Leads to high NX

❖ For rest of the world:

- Pay cheaper prices on Chinese imports





Negative Effects of Undervaluing RMB

❖ For China:

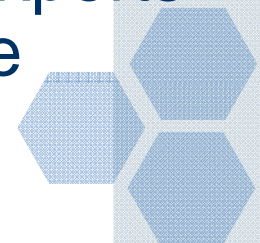
- Inflation
- Less purchasing power for Chinese consumers

❖ For U.S.:

- Huge trade deficit with China
- Loss of domestic jobs in the manufacturing industry

❖ For India:

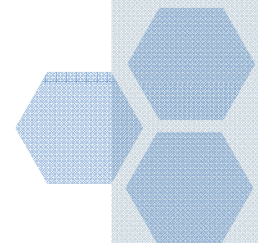
- Like China, India specializes in exporting textiles and toys
- The devaluing of the RMB, makes India's exports comparatively more expensive, less attractive





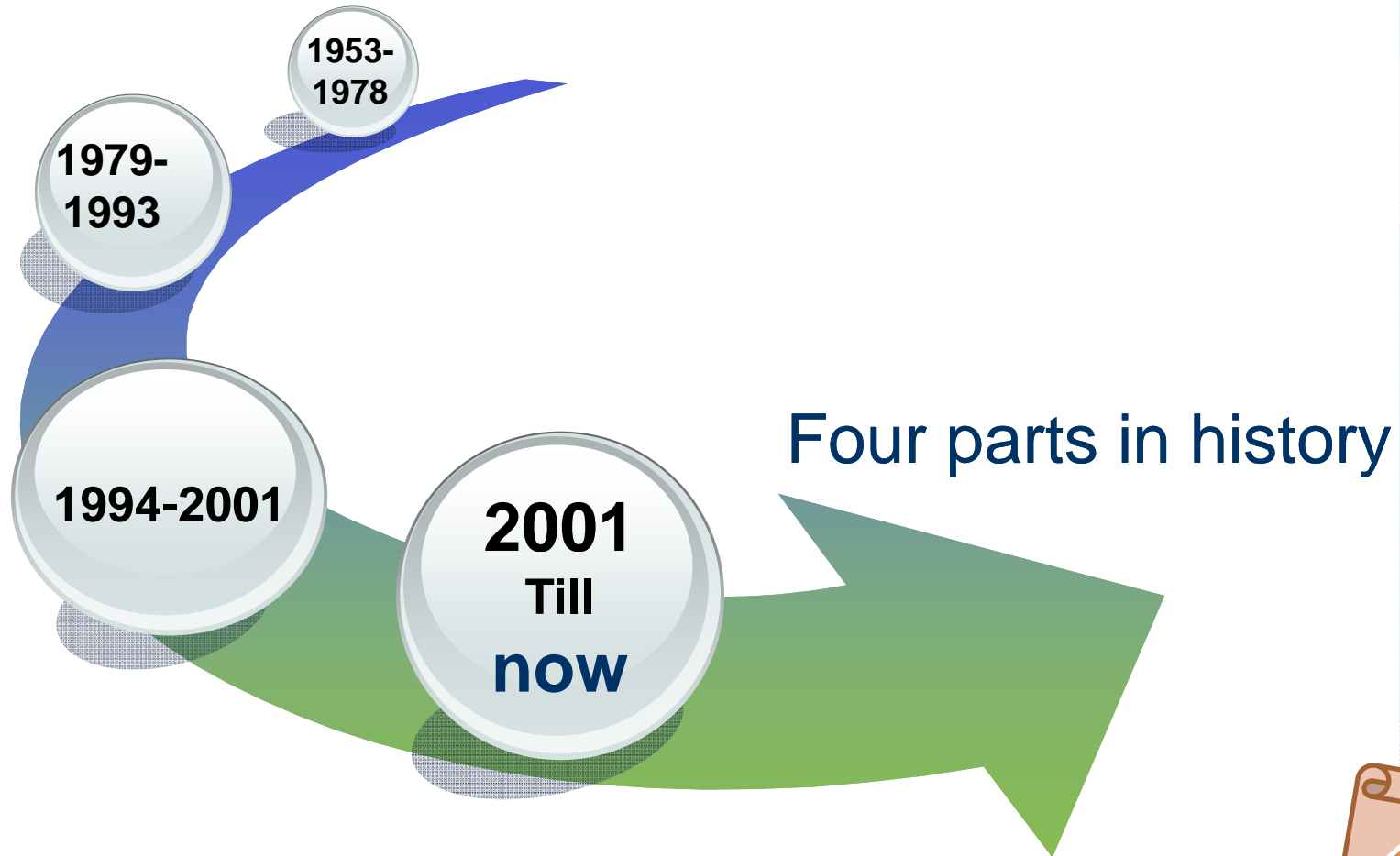
DEBATE

- ❖ Topic – is China deliberately manipulating the Renminbi in order to obtain an unfair international trade advantage?
- ❖ Viewpoints of U.S. and Chinese government spokespersons....



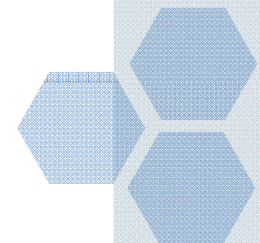
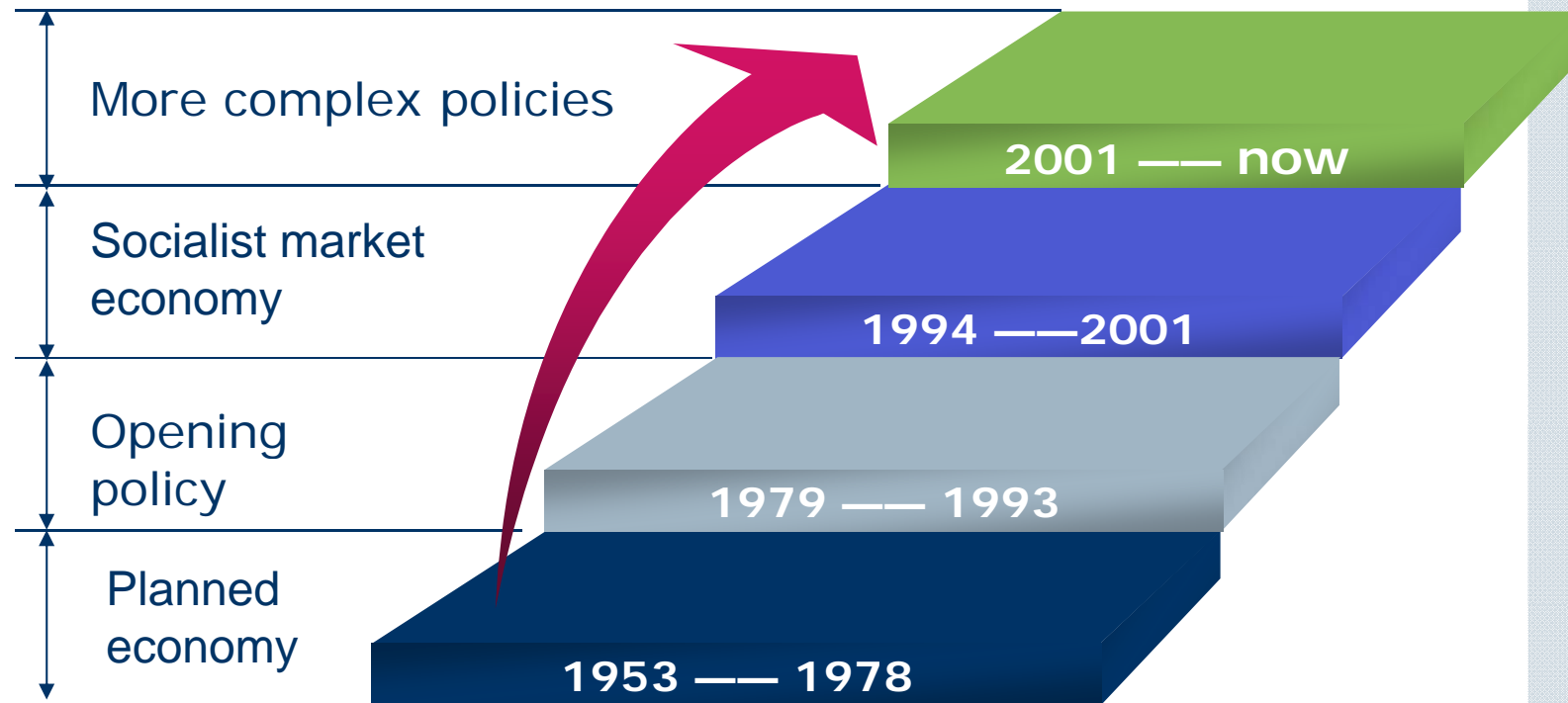


Adopted Policies



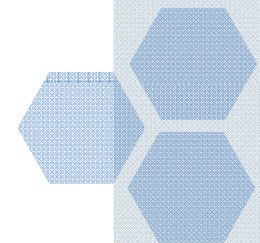
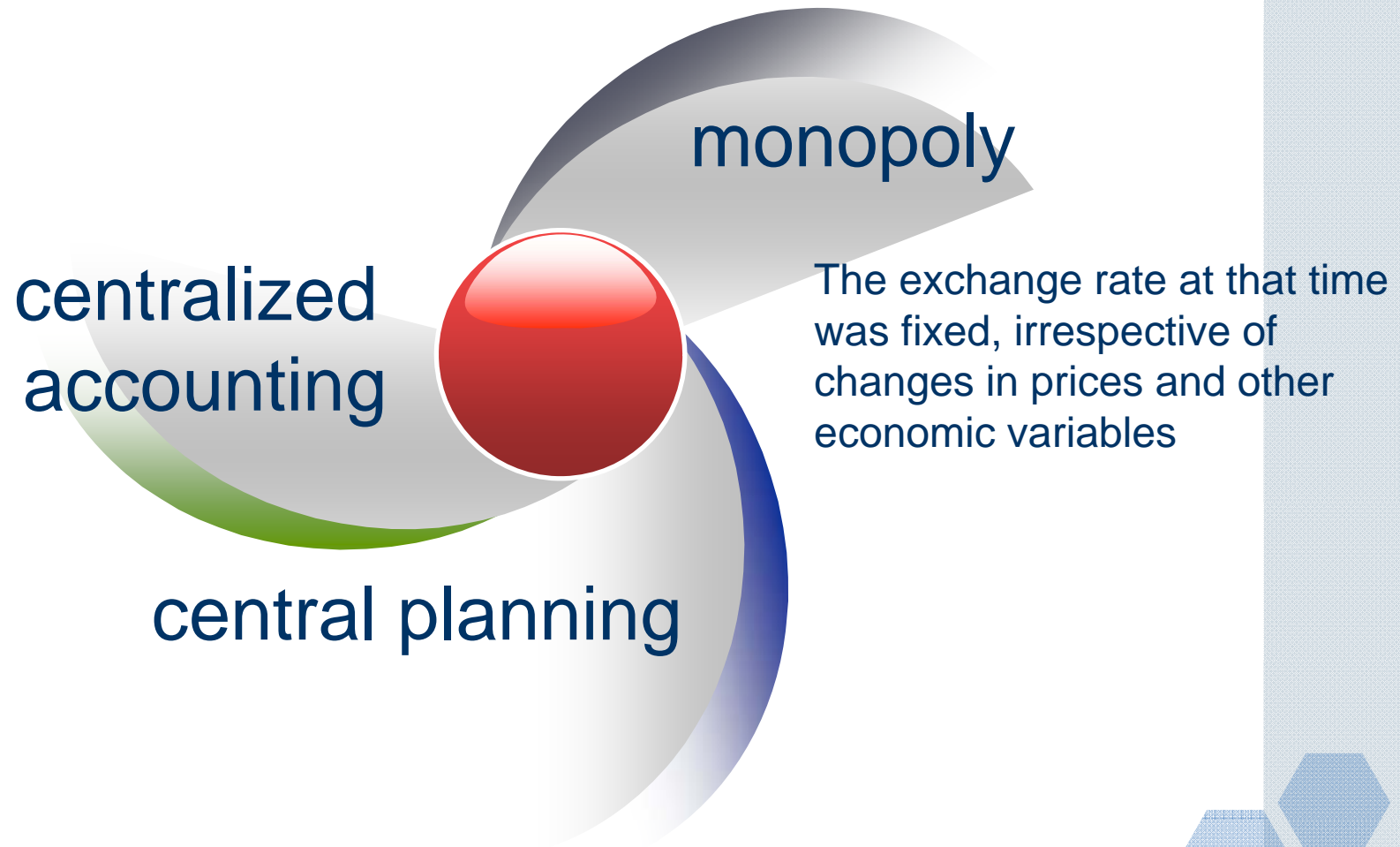


Policy





Planned economy (1953 — 1978)





Opening Policy (1979 — 1993)



1. Deng adopted the Opening Policy
2. SAFE was established
3. The dual exchange rate system was given out

ISR
established for the
RMB at
2.8 RMB
per US\$

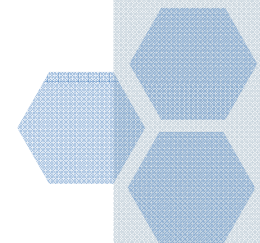
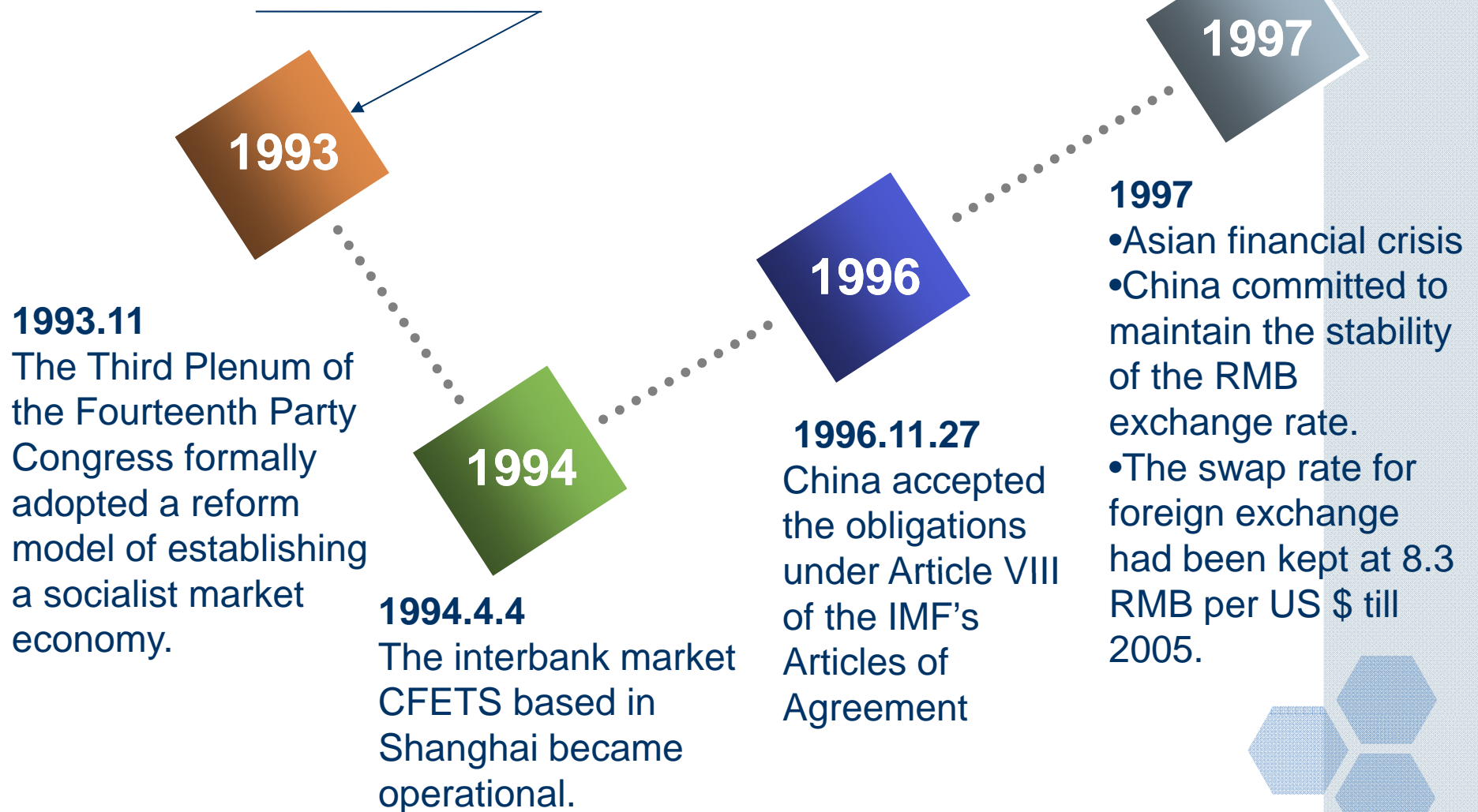
1. abolishing the ISR
2. China launched the second round of external reform
3. Domestic residents were allowed to hold foreign exchange accounts at the BOC
4. foreign currency swap centers established in Shenzhen and other SEZs

1. major devaluation of the official exchange rate raised to 5.22 RMB per US\$
2. the fourth foreign exchange reform came out



Socialist market economy (1993 — 2001)

The RMB official and swap market rate **unified** at the swap rate of 8.7 per US\$





More complex policies (2001 till now)

1

2001.11.10

- China became a member of WTO.
- The Chinese Authorities have allowed QFIIs to purchase local market securities

2

2005.9.21 The RMB exchange rate became adjustable to the currency in a basket.

2005.8 China allowed all banks with licenses to trade in the interbank foreign exchange market to transact RMB forward.

2005.9.23 RMB would be allowed to fluctuate by 3 per cent a day against non-dollar currencies.

3

2006.1.3

- Over-the-counter foreign exchange transactions was allowed.
- Several substitutes for larger exchange rate appreciation



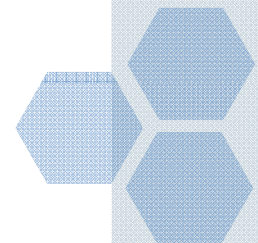


Chinese Trade

- ❖ Has been growing exponentially as a result of reforms to integrate into global economy

- ❖ Persistent trade surplus
 - But is this because of China, or because of structural problems in other economies?!?

- ❖ Statistics 2000-2009 – emphasis on World and United States trade



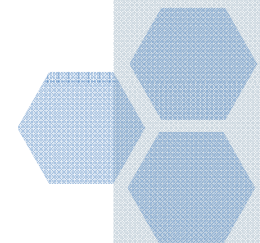


Chinese Trade

❖ China's Trade with the Rest of the World

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Exports	249.2	266.1	325.6	438.2	593.3	762.0	969.0	1,220.5	1,430.7	1,201.7
% change	27.8	6.8	22.4	34.6	35.4	28.4	27.2	26.0	17.3	-16.0
Imports	225.1	243.6	295.2	412.8	561.2	680.0	791.5	956.1	1,132.6	1,005.6
% change	35.8	8.2	21.2	39.8	36.0	17.6	19.9	20.8	18.5	-11.2
Total	474.3	509.7	620.8	851.0	1,154.6	1,421.9	1,760.4	2,176.6	2,563.3	2,207.2
% change	31.5	7.5	21.8	37.1	35.7	23.2	23.8	23.6	17.8	-13.9
Balance	24.1	22.5	30.4	25.5	32.1	102.0	177.5	264.3	298.1	196.1

❖ Increasing – general trend of a positive trade surplus



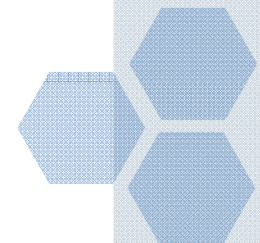


Chinese Trade

❖ China's Trade with the United States

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
US exports	16.3	19.2	22.1	28.4	34.7	41.8	55.2	65.2	71.5	69.6
% change	24.4	18.3	15.1	28.5	22.2	20.6	32.1	18.1	9.5	-2.6
US imports	100.0	102.3	125.2	152.4	196.7	243.5	287.8	321.5	337.8	296.4
% change	22.3	2.2	22.4	21.7	29.1	23.8	18.2	11.7	5.1	-12.3
Total	116.3	121.5	147.3	180.8	231.4	285.3	343	386.7	409.2	366.0
% change	22.6	21.4	21.2	22.8	28	23.3	20.2	12.7	5.8	-10.6
US balance	-83.7	-83.0	-103.1	-124.0	-162.0	-201.6	-232.5	-256.3	-266.3	-226.8

❖ A very large trade surplus –
accounting for most of China's
overall trade surplus!!



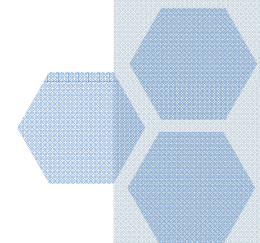


Chinese Trade

❖ China's Top Export Partners

Rank	Country/region	Volume	% change over 2008
1	United States	220.8	-12.5
2	Hong Kong	166.2	-12.8
3	Japan	97.9	-15.7
4	South Korea	53.7	-27.4
5	Germany	49.9	-15.7
6	The Netherlands	36.7	-20.1
7	United Kingdom	31.3	-13.3
8	Singapore	30.1	-6.9
9	India	29.7	-6.1
10	Australia	20.6	-7.2

❖ United States far and above the largest export market for China



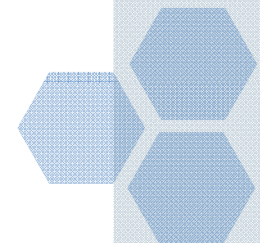


Chinese Trade

❖ China's Top Import Partners

Rank	Country/region	Volume	% change over 2008
1	Japan	130.9	-13.1
2	South Korea	102.6	-8.5
3	Taiwan	85.7	-17.0
4	United States	77.4	-4.8
5	Germany	55.8	0.0
6	Australia	39.4	5.4
7	Malaysia	32.3	0.7
8	Brazil	28.3	-5.3
9	Thailand	24.9	-3.0
10	Saudi Arabia	23.6	-23.9

❖ United States only ranks as the fourth import market for China...

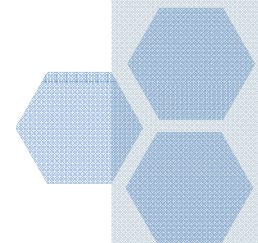




Chinese Trade

Conclusions

- ❖ China runs a Trade Deficit with many large and advanced economies such as Australia and Japan.
- ❖ The main country with which it runs a Trade Surplus is the United States.
- ❖ When trade with the United States is taken out, the argument that China has a policy promoting a trade surplus is weak or even a total lie.....





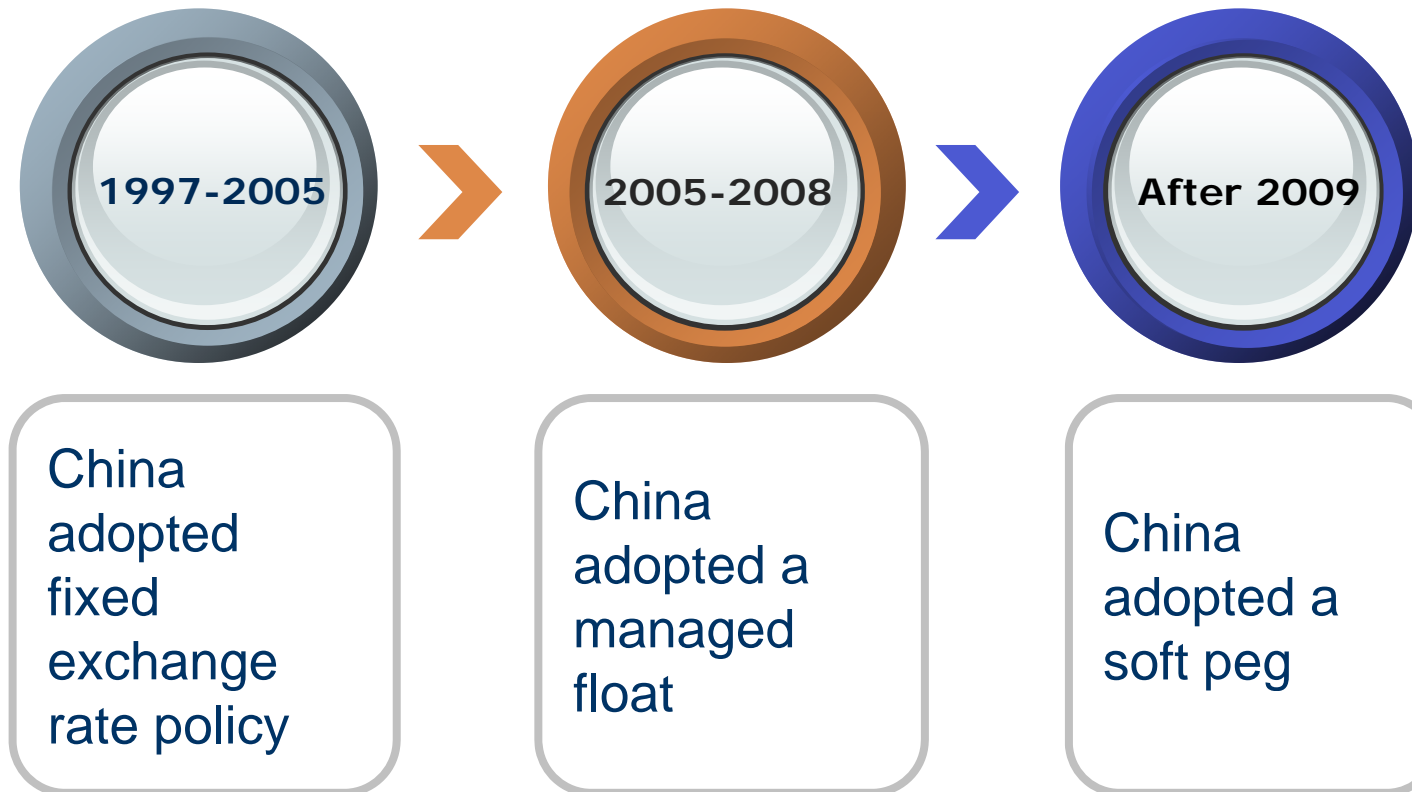
Our opinion

- ❖ 1) Controversy
- ❖ 2) Will the revaluation of the Yuan is good for the world economy?
- ❖ 3) Some solutions for these issues



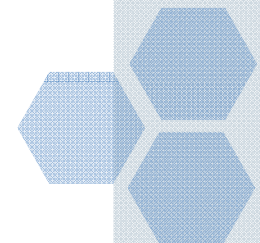


The RMB exchange rate regime it is manipulated by the Chinese government ?



- The People's Bank of China intervenes in the foreign exchange markets by purchasing USD in order to maintain stable exchange rate for the RMB.

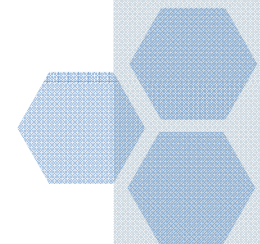
→ **Does this amount to 'currency manipulation' ?**





The RMB exchange rate regime it is manipulated by the Chinese government ?

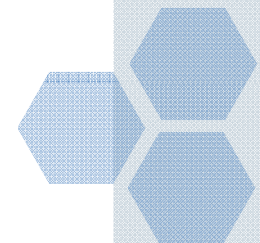
- ❖ The IMF never introduced any rules prohibiting any country to adopting a fixed exchange rate.
- ➔ So there is nothing illegal or immoral about China adopting a fixe exchange rate regime.





The RMB is really undervalued ?

- ❖ Purchasing-Power-Parity theory : it's the rate that equalizes the price of a identical product or service in two different currencies
 - The domestic price level determines the currency's foreign exchange rate according to the Purchasing-Power-Parity theory
- ❖ Since 16 years, China CPI increase by 69 (the CPI increase of the United States was much lower than that of China)
 - The RMB should not appreciate against the dollar



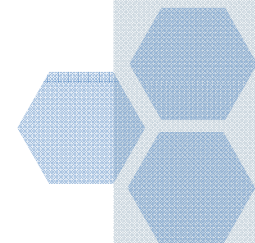


The RMB is really undervalued ?

PPP implied dollar/yuan exchange rate based on average consumer prices
(Index, 2000=100)

Year	CPI China	CPI U.S.	Actual exchange rate	PPP implied exchange rate	Valuation Yuan
1996	99,057	91,095	8.35	-	-
1997	101,830	93,225	8.33	8,39	0,70%
1998	101,016	94,667	8.28	8,19	-1,04%
1999	99,602	96,743	8.28	7,91	-4,52%
2000	100	100	8.28	7,68	-7,26%
2001	100,725	102,817	8.28	7,52	-9,15%
2002	99,953	104,457	8.28	7,35	-11,26%
2003	101,119	106,858	8.28	7,27	-12,24%
2004	105,063	109,708	8.34	7,35	-11,83%
2005	106,971	113,415	8.37	7,24	-13,47%
2006	108,540	117,069	8.03	7,12	-11,34%
2007	113,714	120,417	7.60	7,25	-4,59%
2008	120,446	124,991	6.83	7,40	8,34%

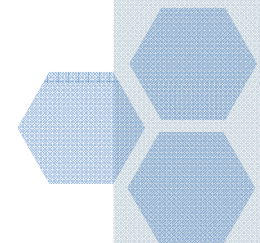
Source: IMF, *International financial statistics*





What are the intentions of the Western countries for their pressure on the RMB revaluation?

- ❖ *To put end on the economic crisis.*
 - ➔ *RMB : ‘caused the global economic imbalance’ ; ‘triggered the financial crisis’ ; ‘prevented the establishment jobs in developed countries’ ; ‘damaged the interests of developing countries’*
 - ➔ *the illness of the world economy due to the trade imbalance could hardly be cured just by revaluating the RMB rate.*
- ❖ *The exchange rate has a limited effect on the positive trade balance.*
 - ➔ *to change the deficit on foreign trade and increase their export volume*
 - ➔ *the U.S deficit trade with China is caused by too low evaluation of the estimated value of the RMB.*





Contreversy conclusion



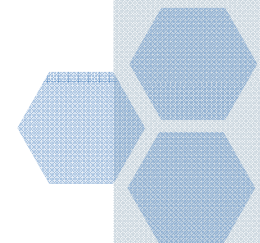
The yuan has appreciated by 21.1% overall against the U.S. dollar.

→ U.S. trade deficit toward China has increase of 21.6%,

The yuan has remained stable against the dollar

→ While the U.S. trade deficit toward China declined by 16.1%

The push on the revaluation of the RMB is not conducive to reducing the trade deficit.





Will the revaluation of the Yuan is good for the world economy?

- ❖ **Pay attention to preconceived ideas !!**
- ❖ **China's exports will fall /America and Europe will be more competitive.**

! WRONG !





Consequences for the global economy

Main Point		
International Trade	<ul style="list-style-type: none">-Diversification of export countries-Chinese import will go up	China's exports still important, because even if the value of the Yuan will be increase it still weaker than the dollar
Off shoring	<ul style="list-style-type: none">- Less-offshoring to China-New employments in Western countries, where the problem of unemployment is very worrying	-The cost of Chinese labor is still very low, Western companies will continue their operations in China
Inflation	China, in a situation of overproduction, will be able to avoid inflation	In importing countries, inflation will increase
Purshasing power	<ul style="list-style-type: none">-Chinese purchasing power will increased-So domestic consumption will increase	Western purchasing power will increase
American debt	<ul style="list-style-type: none">-Dollar will be more competitive-Attractiveness of US financial market-Coverage of US debt	<ul style="list-style-type: none">-China will decrease its exports so less reserve currency-So less dollar to invest in US debt



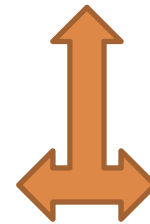
Is there a real effect?

**Competitiveness of
Chinese labor wage
still very high**



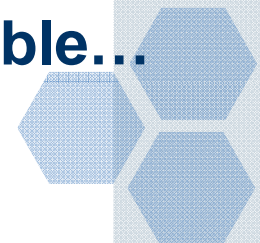
**Chinese Industrial
productivity
still high**

**No significant change
On the phenomena of
offshoring**



**Western countries'
exports wouldn't
change**

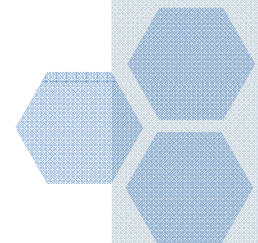
**US external deficit will always be important
So global economy rebalancing would be impossible...**





Some solutions for these issues

- ❖ One-step adjustment is the best way to appreciate the currency
- ❖ China can achieve real appreciation through inflation
- ❖ Yuan: Asian new currency?





Conclusion

- ❖ China has made significant reforms for the RMB exchange rate
- ❖ China is increasingly integrated into the global economy and important for global trade and economic growth
- ❖but Chinese trade and the RMB exchange rate will continue to remain controversial so long as government intervention exists....