

Chinese surpluses & currency valuation, 2004-2017

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Session 4: The China Problem

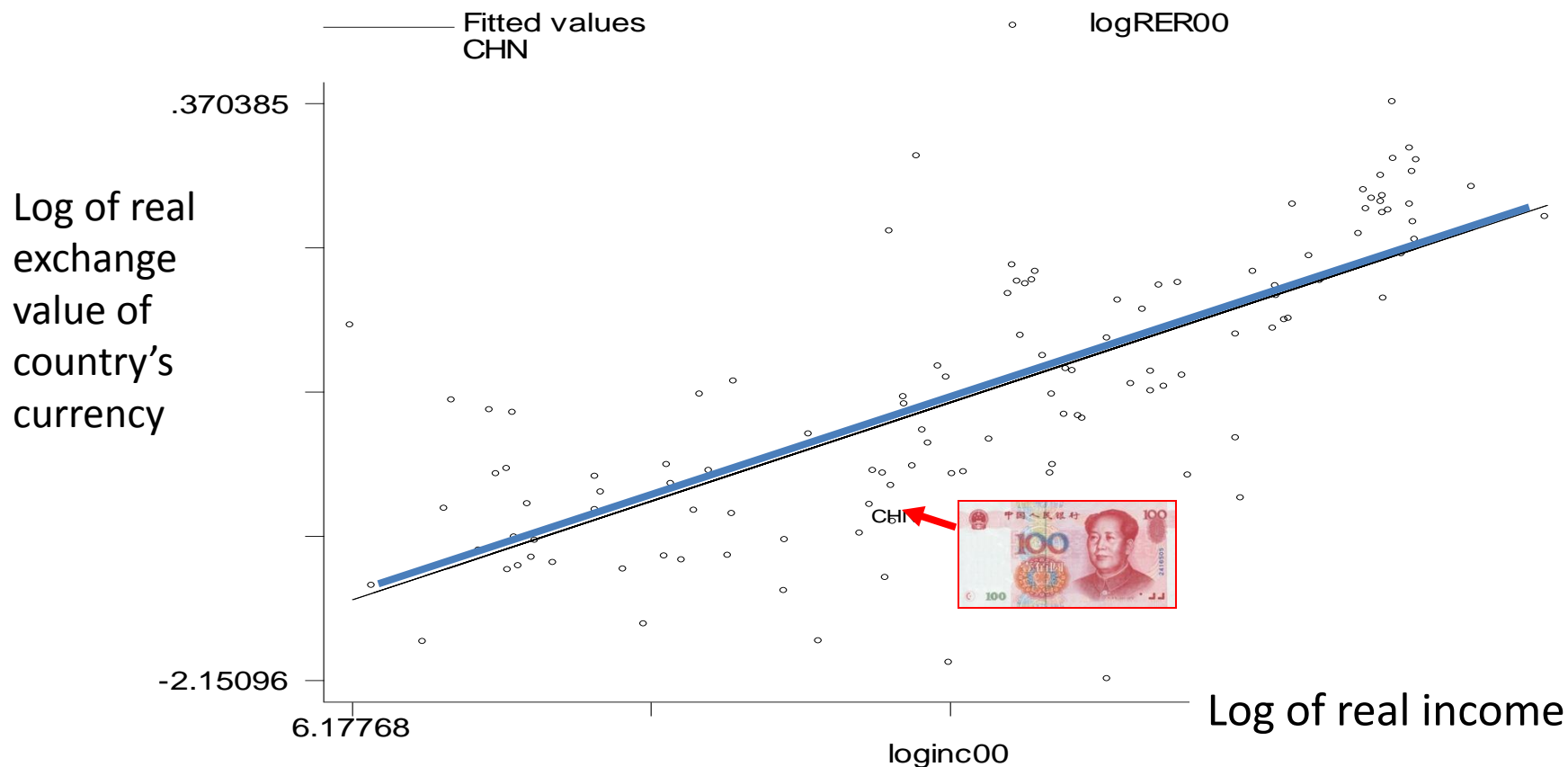
China adjusts

- The RMB was undervalued in 2004-08 by all three kinds of measures (very rare!):
 1. prices were low, even adjusted for income/cap;
 2. the trade and CA surpluses reached high levels;
 3. FX reserves were rising, reaching world-record levels.
- China had adjusted by 2014:
 1. RMB, wages & prices rose => undervaluation ended.
 2. The trade surplus peaked in 2007 at 7% of GDP,
 - then came down to 2% of GDP.
 3. Reserves peaked in 2014, then fell.



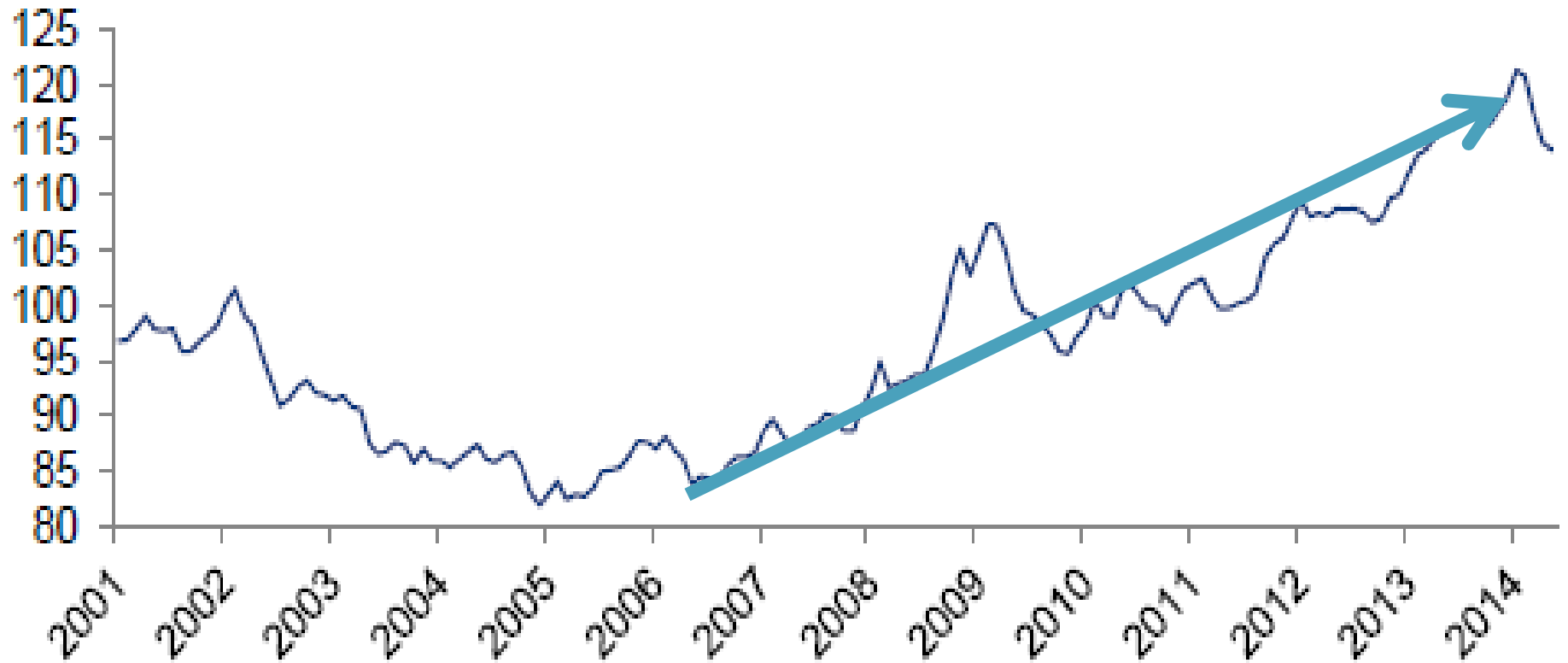
1. China's RMB undervalued $\approx 25\text{-}36\%$ in 2000-05 estimated by PPP adjusted for Balassa-Samuelson

Cross-section of 118 countries



Frankel (2006): "On the Yuan: The Choice Between Adjustment Under a Fixed Exchange Rate and Adjustment under a Flexible Rate," *Understanding the Chinese Economy*, G. Illing, ed. (OUP).

Real appreciation of Chinese RMB 2005-2014



Dooley, Folkerts-Landau, Garber (2014)

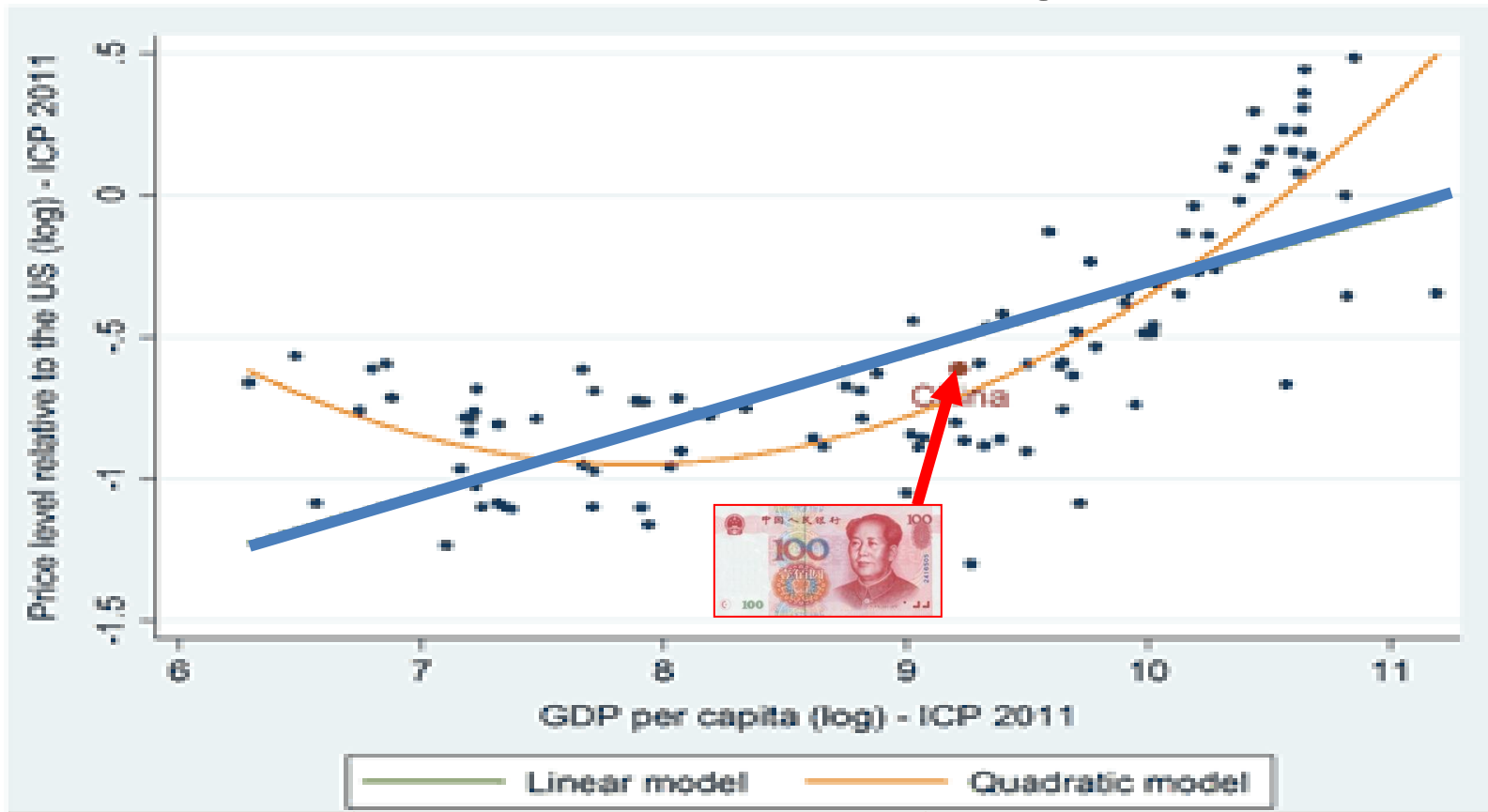
Figure 1: China Real Effective Exchange Rate

Source: BIS, Deutsche Bank Research

RMB undervaluation disappeared by 2011-14 estimated by PPP adjusted for Balassa-Samuelson

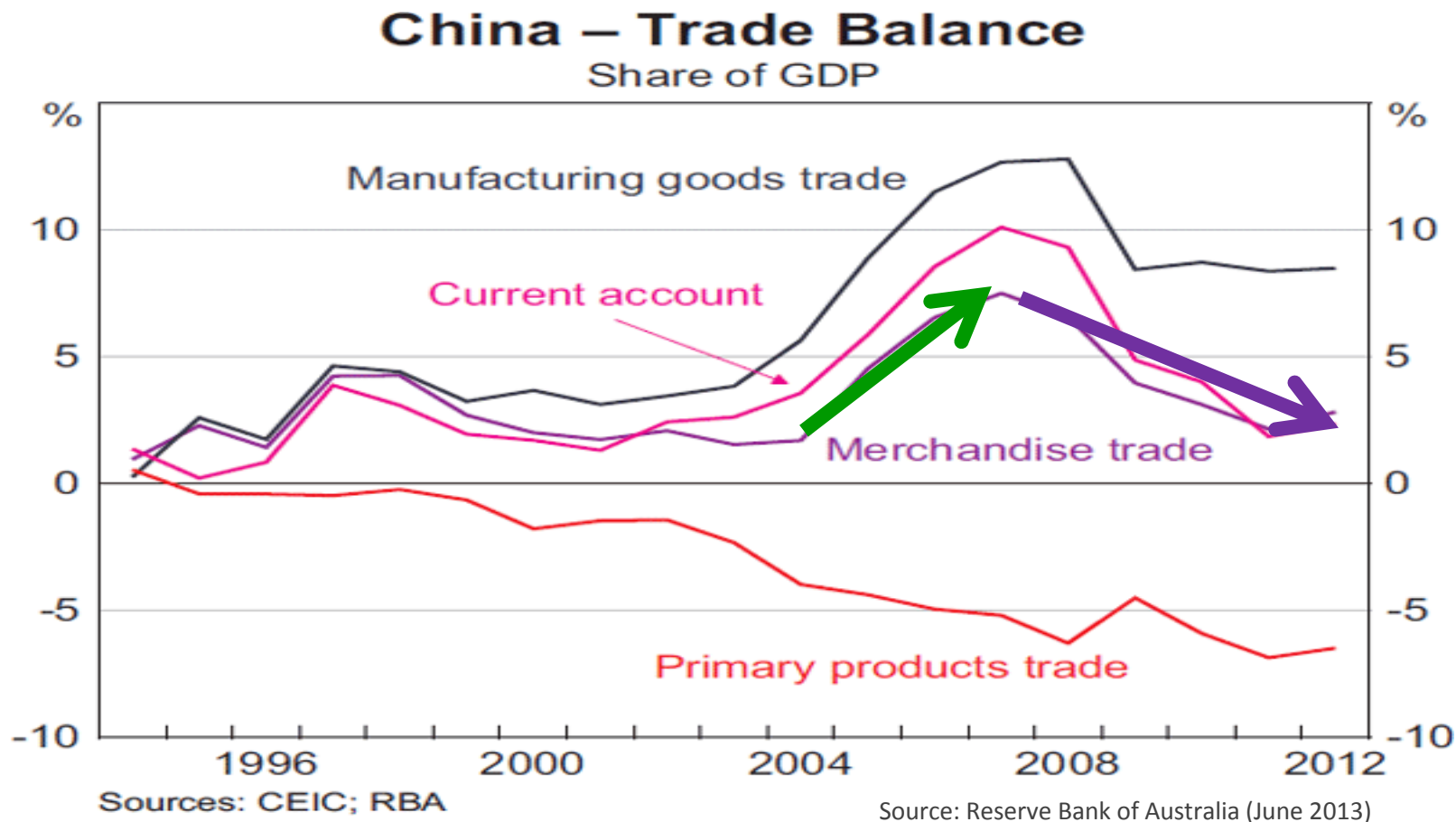
M.Kessler & A.Subramanian, PIIE, May 2014

“Is the Renminbi Still Undervalued? Not According to New PPP Estimates”



Benchmark years	GDP per capita (in PPP dollars)	RMB undervaluation (percent)
2005	4,802	-34.5
2011	10,057	-9.7

2. China's trade & CA surpluses peaked in 2007, and then fell to 2% of GDP.



China runs a deficit in primary products, offset by a surplus in manufactures.

3. China's forex reserves peaked in June 2014,



PBoC stopped intervening to push down the RMB. The opposite.

Frankel, "Chinese currency manipulation not a problem," *East Asia Forum*, March 9, 2015.



"Assessing China's Exchange Rate Regime," with Shang-Jin Wei, *Economic Policy*, 2007.

"The Renminbi Since 2005," in *The US-Sino Currency Dispute: New Insights from Economics, Politics and Law*, edited by S. Evenett (CEPR: London) 2010, 51-60.

"China Adjusts," *Project Syndicate*, March 23, 2012.

"Congress, China, and Currency Manipulation," *China-US Focus*, vol. 6, April 2015, 36-38.

"Mnuchin's Mission," in *Nikkei Asian Review*, March 23, 2017.

China's Current Account peaked in 2007 at 10% of GDP and then fell to 2% of GDP.

CHINA CURRENT ACCOUNT TO GDP



SOURCE: TRADINGECONOMICS.COM | STATE ADMINISTRATION OF FOREIGN EXCHANGE, CHINA

Slowdown, 2012-2017

China's growth averaged 10% over 1980-2010, then declined below 7%.

30 years of growth in Chinese GDP

