Exchange Rate Flexibility and Rebalancing in China

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China’s Current Account Balance

Source: IMF World Economic Outlook Database
The Growth Rate of Exports

Source: UNCTAD
The Share in World Export

Source: UNCTAD
Current Account Balance as Share of World GDP

Source: IMF World Economic Outlook Database
China’s Trade Balance by Types of Goods

Source: RIETI-TID 2011, Japan
Terms of Trade

Source: UNCTAD
Conditional Correlation

Source: Kinkyo(2012a)
Conditional Correlation

Source: Kinkyo(2012a)
RMB’s Equilibrium Rate

Source: Kinkyo(2012b)
RMB’s Misalignments and USD

Source: Kinkyo(2012b)
GDP Expenditure Components

The graph illustrates the percentage contribution of different components to GDP over time. The components include:

- **Household consumption** (blue line)
- **Fixed capital formation** (red squares)
- **Exports** (green crosses)

The graph shows the trends from 1970 to 2010.
Exchange Rate Flexibility and Rebalancing

• Exchange rate flexibility will contribute to shifting investment towards services and away from manufacturing.
  
  Undervalued renminbi effectively provides manufacturing sectors with subsidies by increasing the relative price of tradable goods to nontradable goods

• It will also contribute to increasing household consumption by allowing the real interest rates of bank deposits to rise.
  
  Bank deposit rates are kept low to create profit margins for banks. In return, banks are required to purchase bills issued by the central bank to sterilize massive FX interventions
References