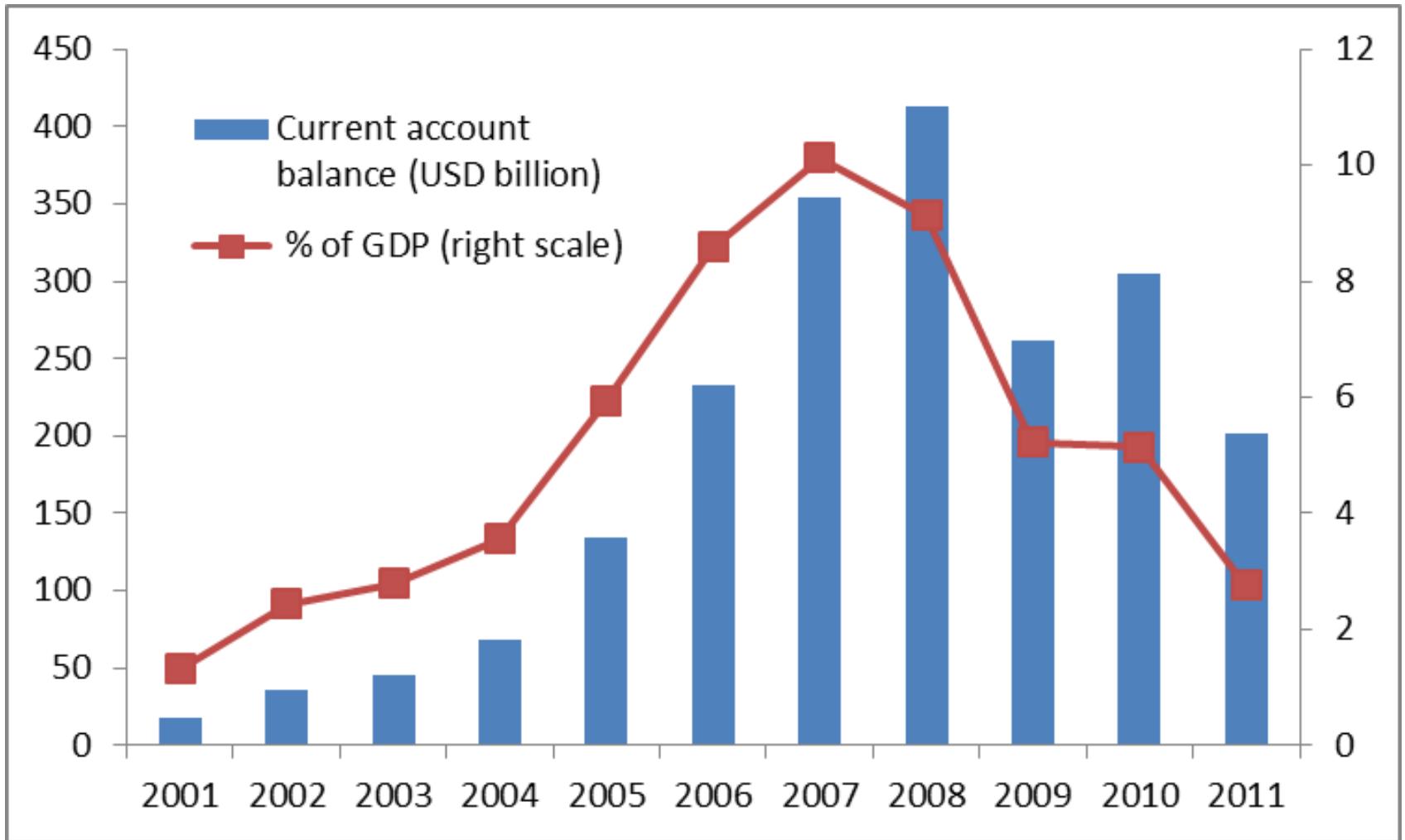


Global Economic Cooperation: Views from G20 Countries  
(ICRIER, Oct. 7-9, 2012)

# Exchange Rate Flexibility and Rebalancing in China

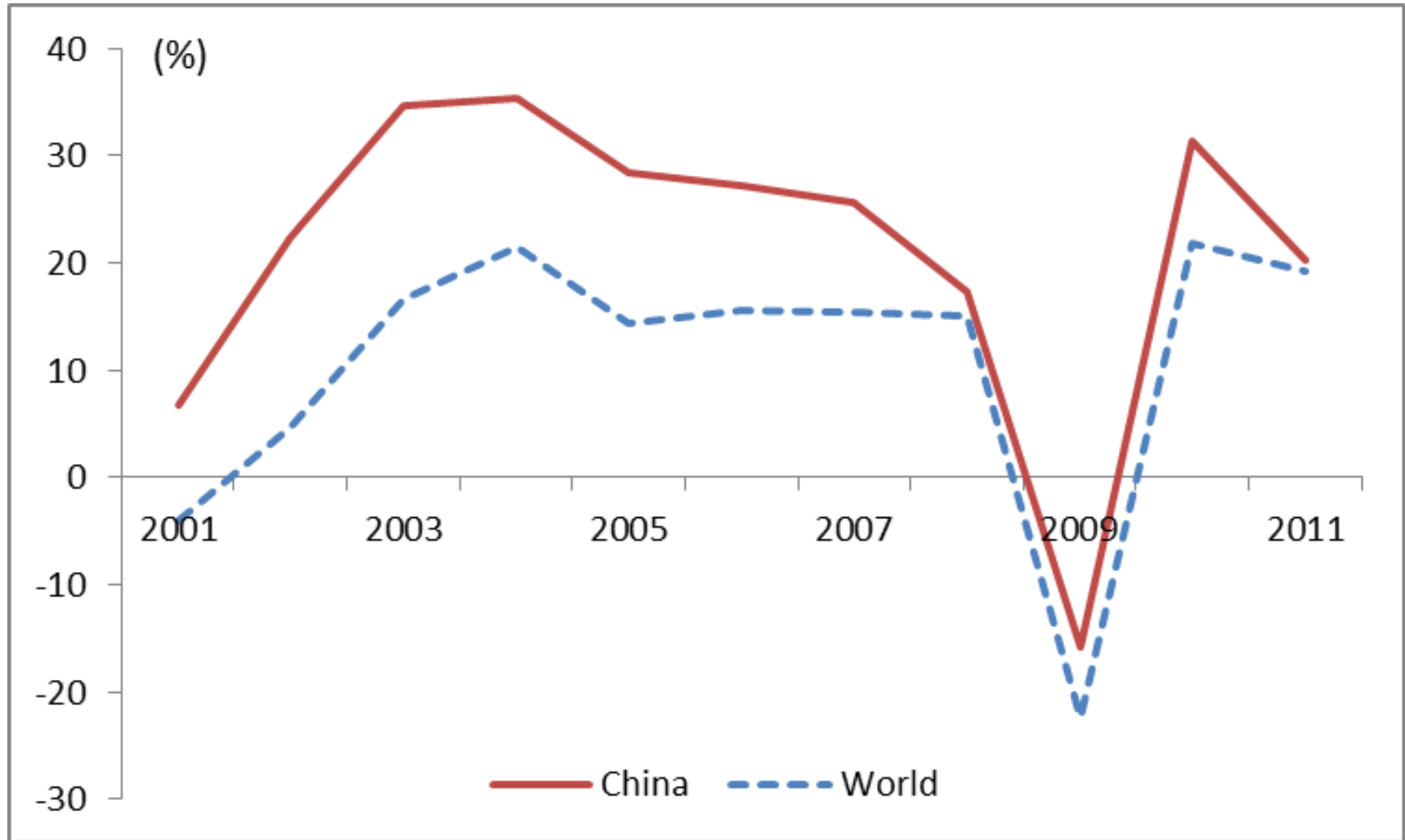
Takuji Kinkyō  
*Kobe University*  
*PRI, Ministry of Finance, Japan*

# China's Current Account Balance



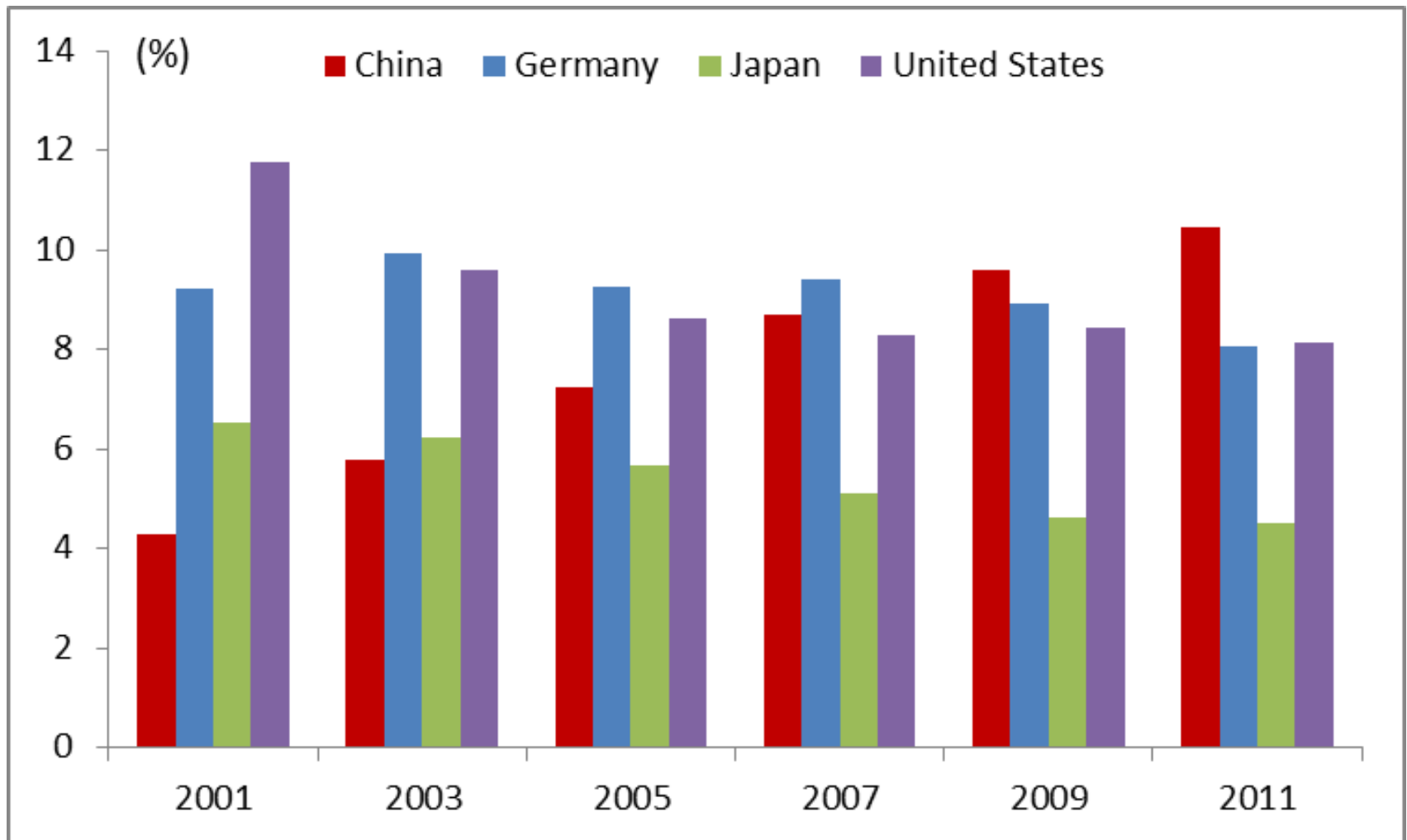
Source: IMF World Economic Outlook Database

# The Growth Rate of Exports



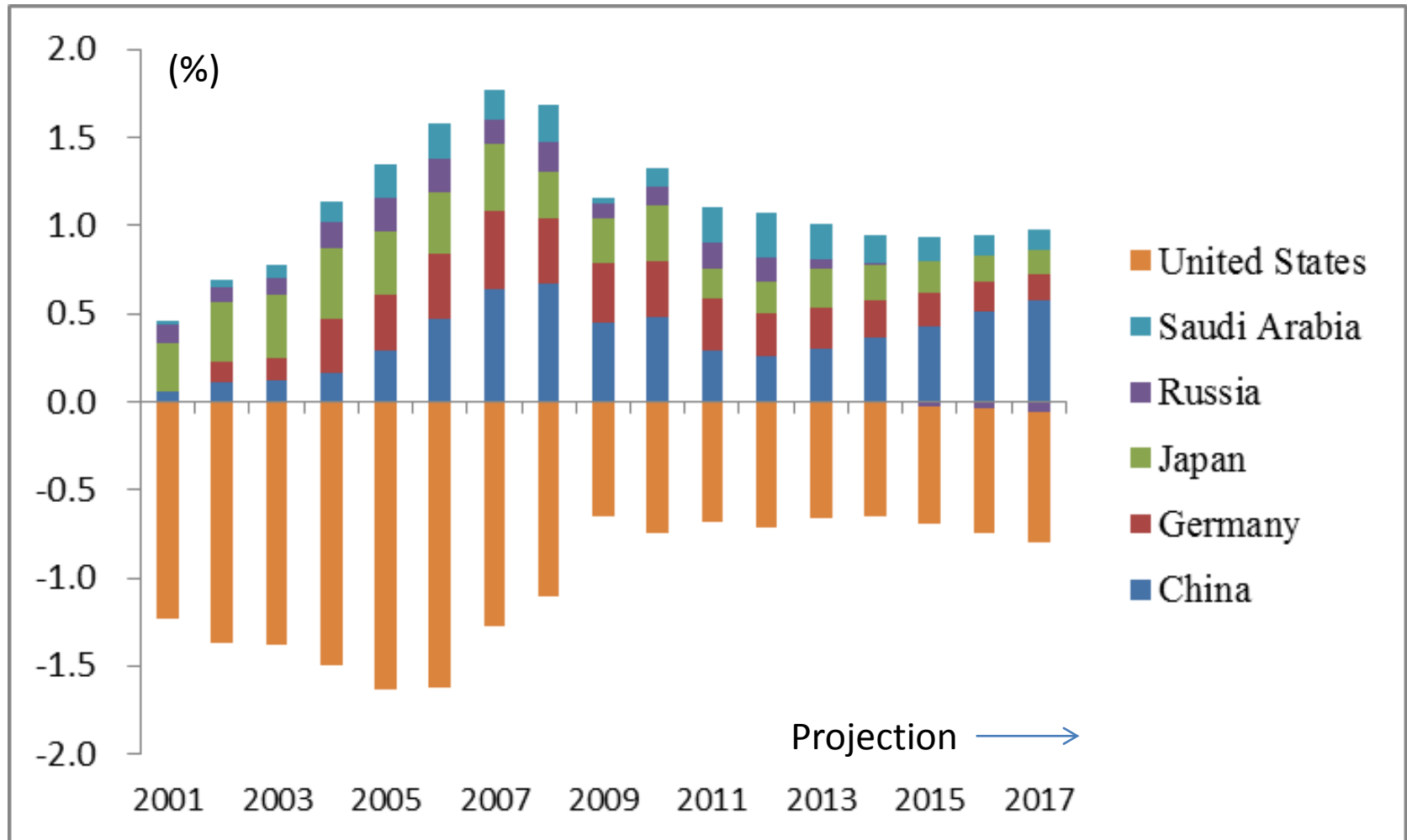
Source: UNCTAD

# The Share in World Export



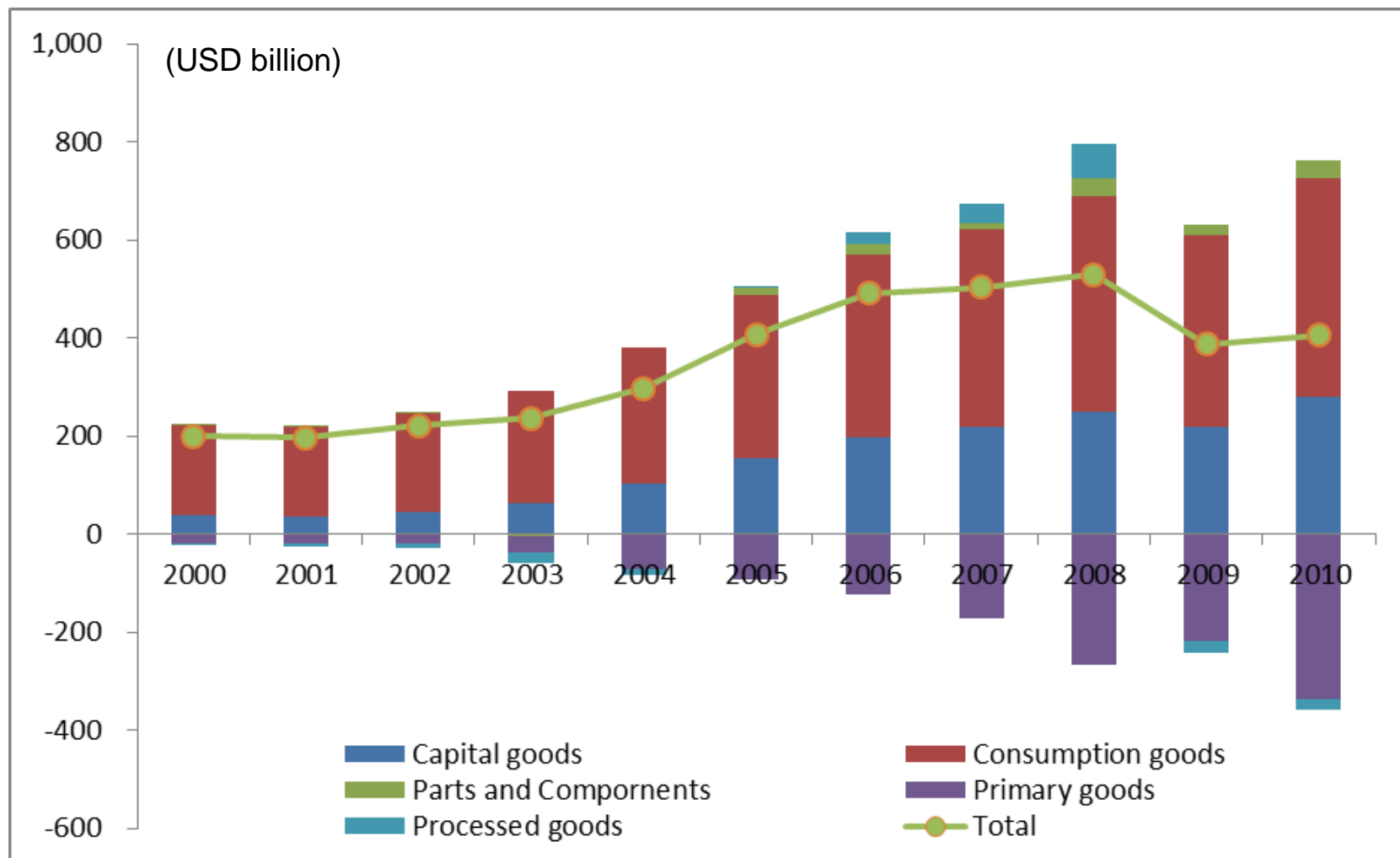
Source: UNCTAD

# Current Account Balance as Share of World GDP



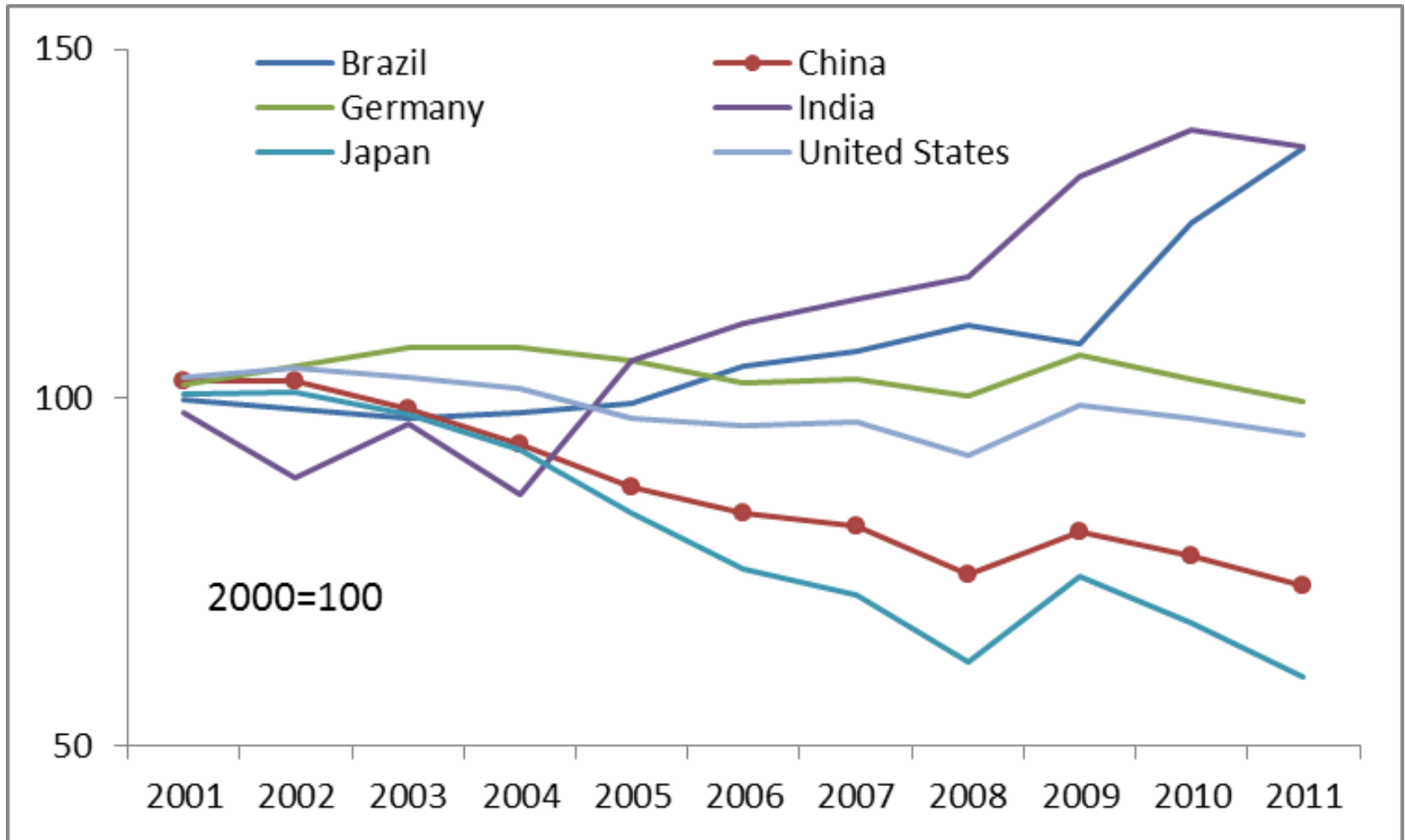
Source: IMF World Economic Outlook Database

# China's Trade Balance by Types of Goods



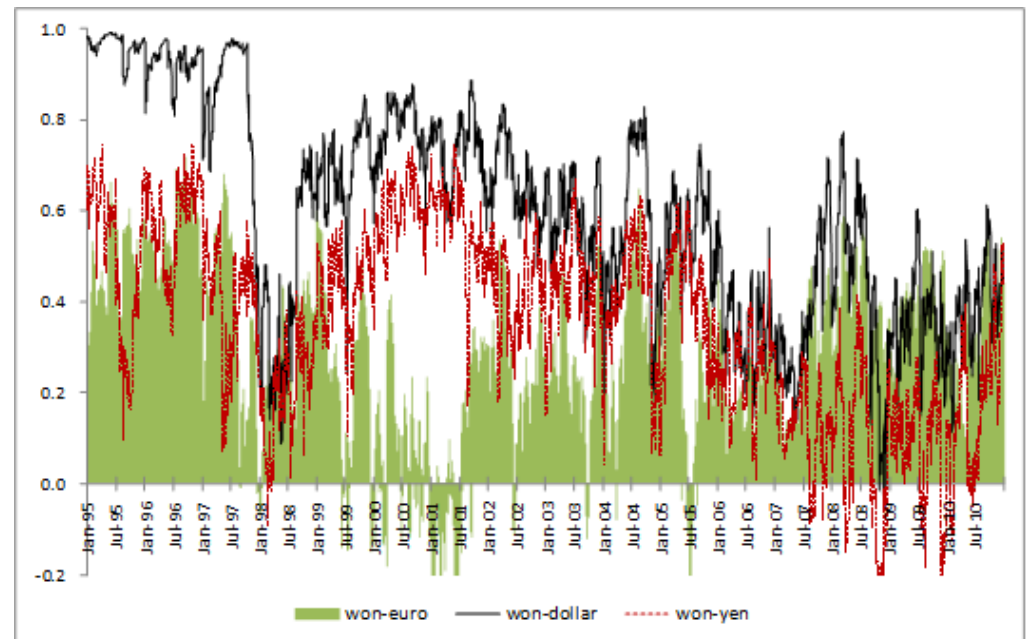
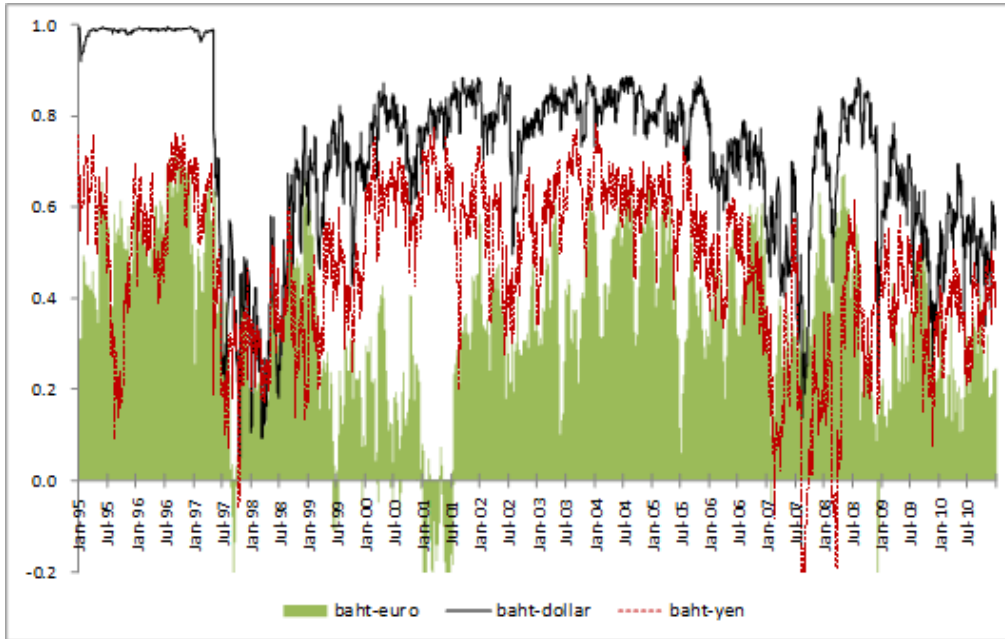
Source: RIETI-TID 2011, Japan

# Terms of Trade



Source: UNCTAD

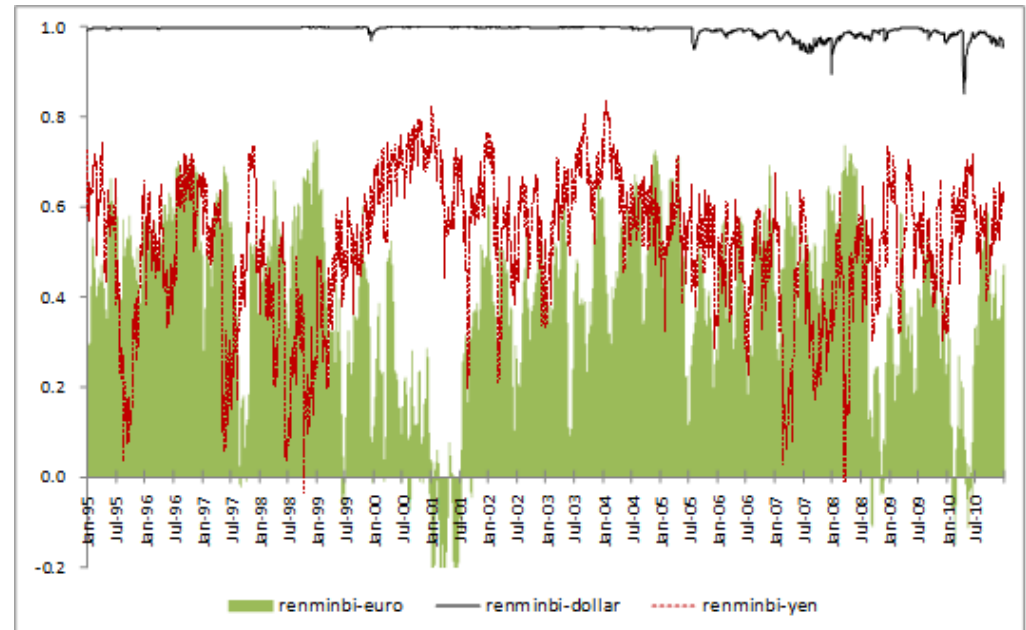
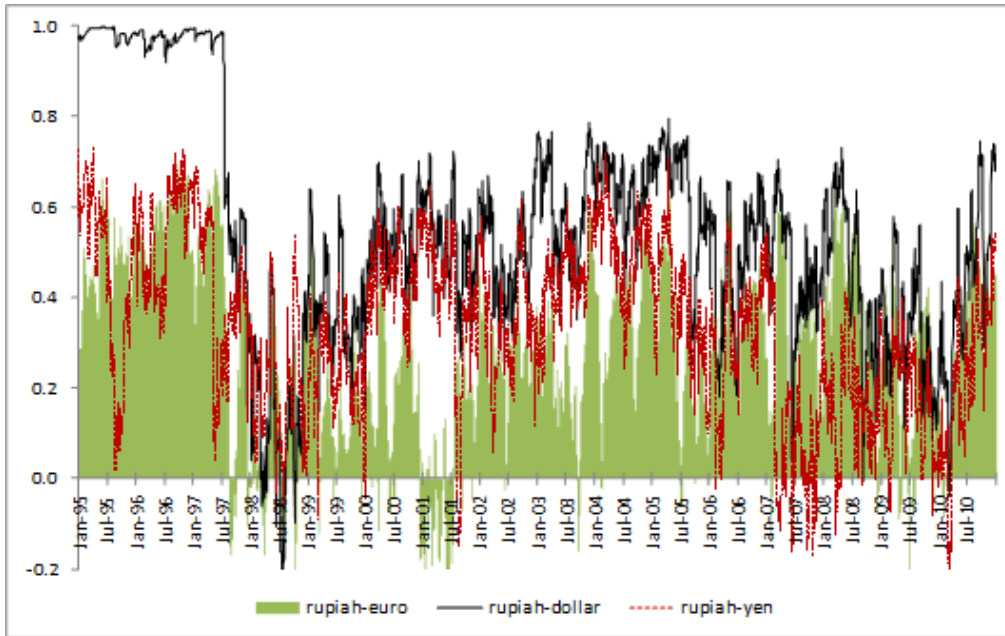
# Conditional Correlation



Source: Kinkyo(2012a)

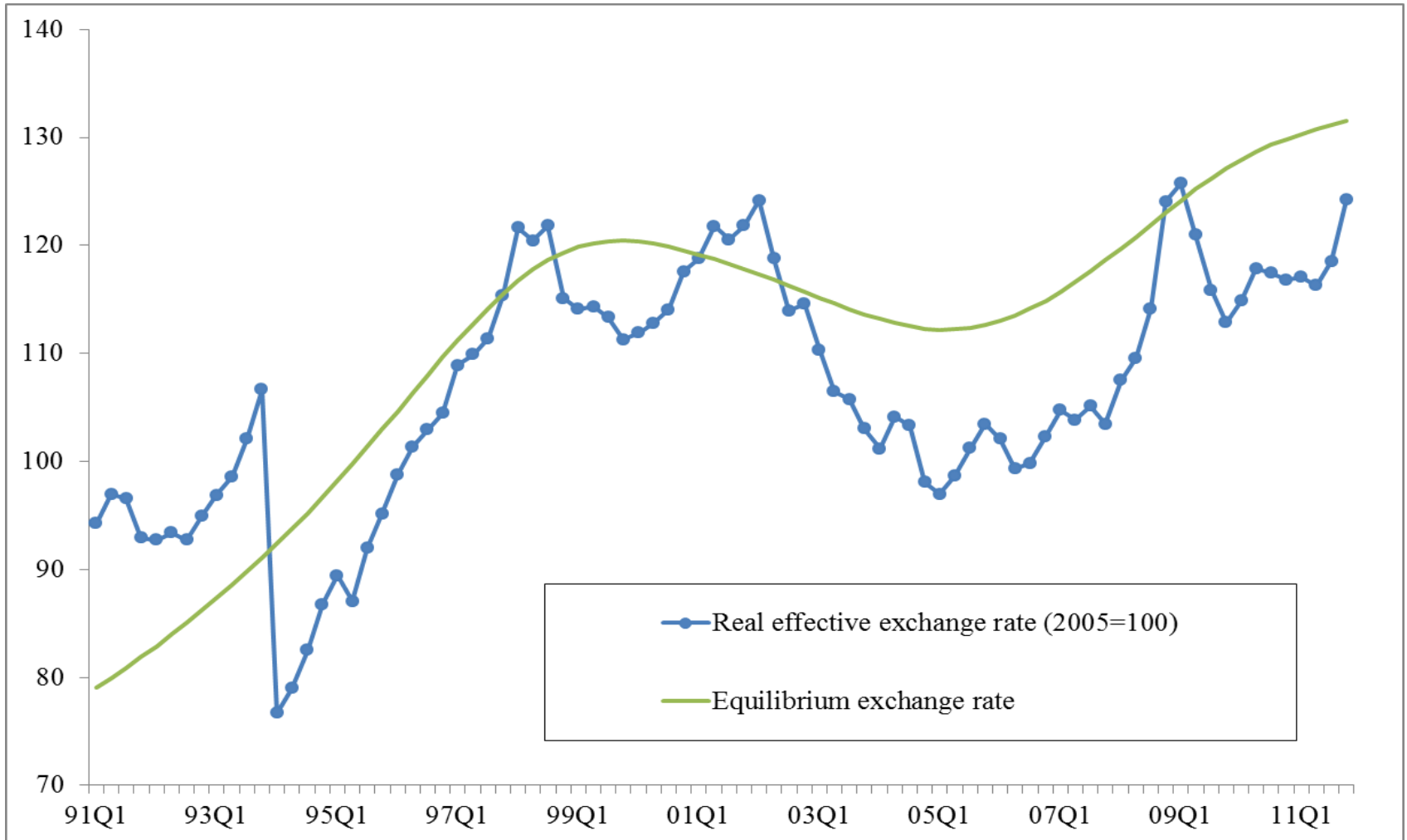


# Conditional Correlation



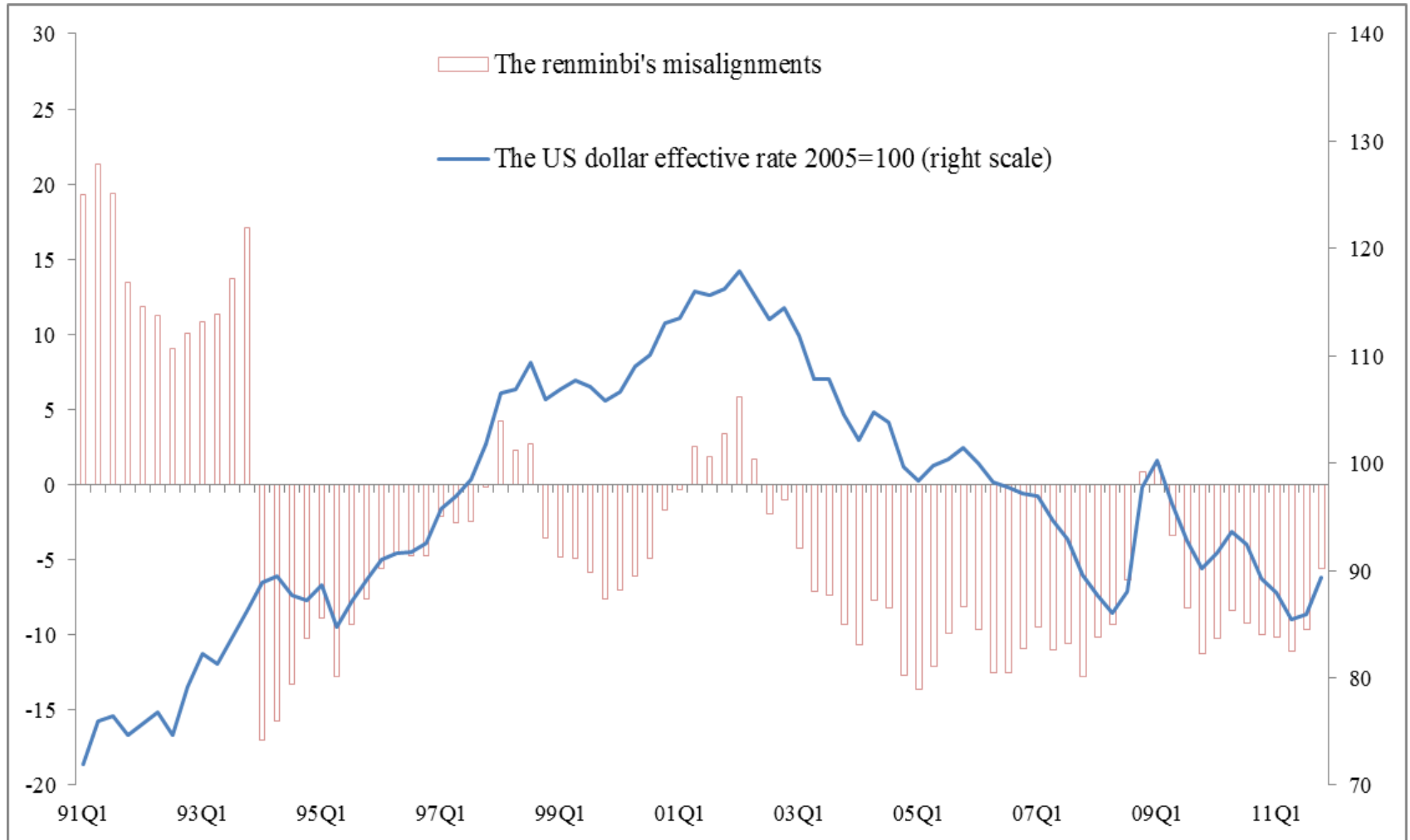
Source: Kinkyo(2012a)

# RMB's Equilibrium Rate



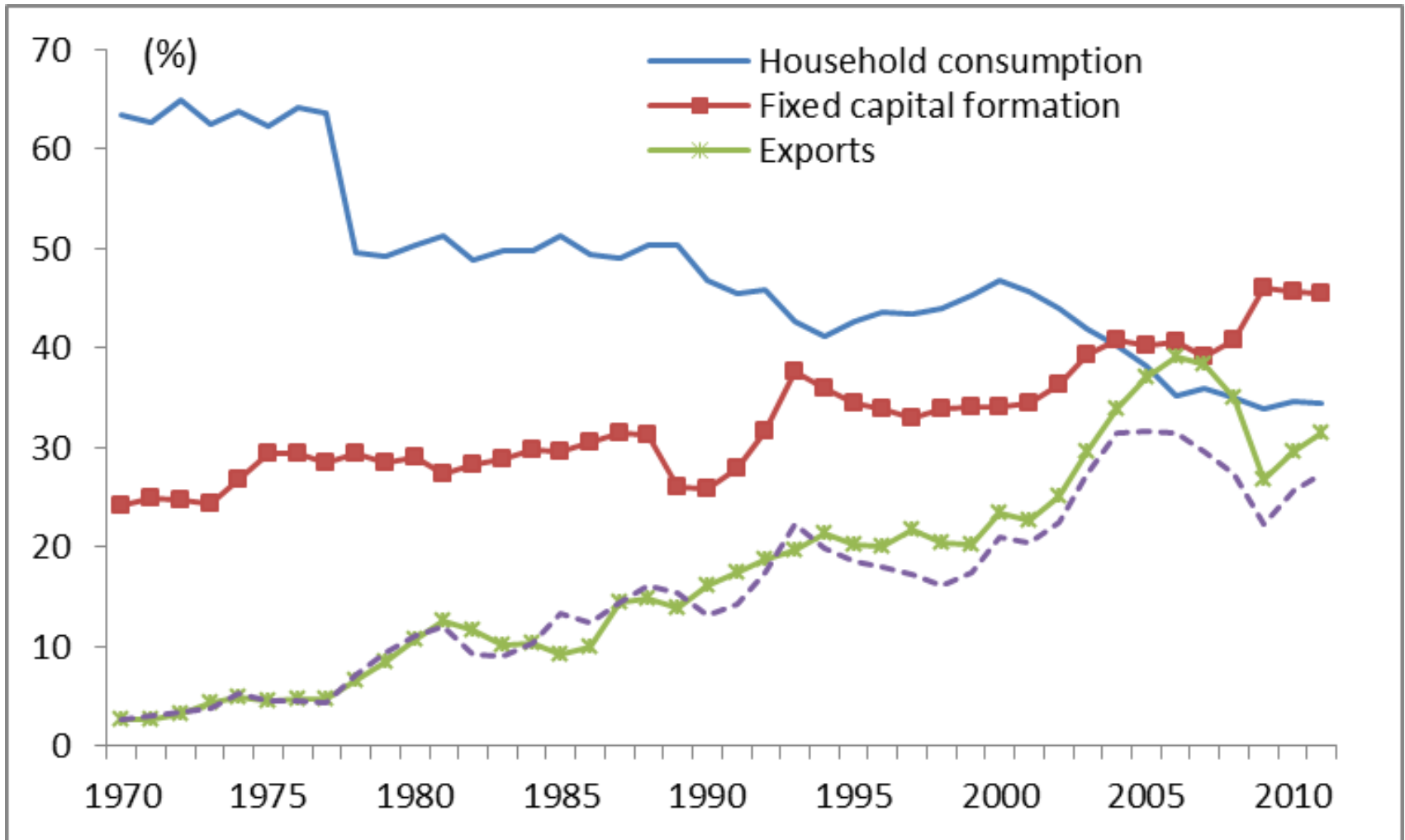
Source: Kinkyo(2012b)

# RMB's Misalignments and USD



Source: Kinkyo(2012b)

# GDP Expenditure Components



# 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*

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