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www.ecipe.org
info@ecipe.org • Rue Belliard 4-6, 1040 Brussels, Belgium

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New working paper:

Is the Renminbi Undervalued?
The Myths of China's Trade Surplus and Global Imbalances

On Friday, the US Treasury Department released its delayed report to the congress on international exchange rates policies. While the report stops short from branding China as a currency manipulator, it insists that China is to blame for much of America's woes. It is evident that the domestic pressure on the Obama administration remains strong – especially from his own party.

In a time when domestic manufacturing jobs are on top of the political agenda in both US and China, the Chinese Renminbi (RMB) is accused of being artificially undervalued, causing the $250 bn trade surplus and delaying the global recovery after the crisis.

In a new ECIPE working paper, Prof. Emeritus Sylvain Plasschaert means that arguments advanced to this effect are quite weak:

First, Chinese trade surpluses are dominated by simple final assembly of consumer goods with little value-added. The Chinese surplus contains double-counting of foreign-made components that China must import in order to export.

Second, the record trade surpluses alone cannot explain the massive Chinese foreign exchange reserves – they were instead fuelled by investments from multinational enterprises.

Finally, the RMB cannot be said to be seriously undervalued, and an appreciation would not fix the global imbalances – nor return the jobs back to the US. Instead, it is a shift in China's growth strategy – away from the single-minded focus on exports, and will instead stimulate the domestic consumption – which will do more to bringing balance to the global economy.

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By Prof. Emeritus Sylvain Plasschaert
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The paper can be downloaded here