

Conference
China, the EU and the restructuring
of Global Governance
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Is the Renminbi undervalued?

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Is the Renminbi undervalued?

= AN HOTLY DEBATED ISSUE

ESPECIALLY BETWEEN USA AND EU vs CHINA
EVEN IN ACADEMIC CIRCLES ...

1/ FACTS

- WIDE DEFICIT OF USA AND EU AGAINST CHINA IN TRADE AND CURRENT ACCOUNTS
- CHINA'S RECORD EXPORT PERFORMANCE
- FOREIGN EXCHANGE RESERVES
BALLOONED TO \$ 2, 4 TRILLION !

2/ QUALIFICATIONS TO CHINA'S EXPORT VALUES

**a) CLOSELY LINKED TO 'FOREIGN INVESTED ENTERPRISES'
(55- 60 %) (INCLUDES HONG KONG AND TAIWAN)**

**b) SOME EXPORTS OF LABOR-INTENSIVE PRODUCTS
TO USA BY U.S FIRMS, THAT HAVE RELOCATED TO
CHINA, OR BY LOCAL CONTRACT MANUFACTURERS**

**– BUT INWARD FDI'S INTO CHINA MOSTLY GEARED TO CHINA'S
INTERNAL MARKET**

c) CONTINUOUS UPGRADING OF TECHNOLOGICAL LEVEL OF CHINESE EXPORTS

- HIGH TECHNOLOGY SEGMENT NOW 31 %
- LOW TECHNOLOGY SEGMENT DOWN TO 27 %

d) SUBSTANTIAL ROLE OF 'PROCESSING TRADE'

= INT'L FRAGMENTATION OF VALUE CHAIN IN
PRODUCTION

- LOCAL CONTENT IN HIGHER TECHNOLOGY REALMS IS SMALLER, THANKS TO MODULARITY AND SEPARABILITY OF PRODUCTION TECHNIQUES IN ICT SECTORS

e) EXCLUSIVE EMPHASIS ON EXPORT MAXIMI-SATION IS MISPLACED

- FDI'S OFTEN NECESSARY TO CONQUER MARKET SHARE ABROAD

f) CHINA'S IMPORT TRADE LARGELY OFFSETS ITS EXPORTS AND HAVE A DIFFERENT COMPOSITION

**g) BILATERAL DEFICITS ARE MISLEADING TO
GAUGE APPROPRIATE EXCHANGE RATES**

**h) CHINESE MULTINATIONALS NOW ON THE
OUTWARD MARCH**

3/ CHINA'S GIGANTIC OFFICIAL FOREX RESERVES

A/ MECHANICS OF THE SYSTEM

- a) EXPORTERS MUST KEEP THEIR EXPORT PROCEEDS IN BANK ACCOUNTS IN CHINA,
- b) WHICH ARE CONVERTED INTO RMB AT THE CENTRAL BANK
- c) WHICH FAIRLY EFFECTIVELY STERILIZES EXCESS RECEIPTS

d) CONVERTIBILITY OF RMB, ONLY ON CURRENT ACCOUNT, SINCE 1994

e) RMB PEGGED TO US DOLLAR UNTIL 2005

f) 2005-08: LINKED TO A BASKET OF CURRENCIES AND MODEST FLEXIBILITY

- UPVALUATION OF THE RMB OF ABOUT 20 %

g) SINCE FINANCIAL TSUNAMI, de facto TIED AGAIN TO THE DOLLAR

B/ DETERMINANTS OF THE RESERVE POSITION

- a) CUMULATIVE TRADE IMBALANCES ONLY EXPLAIN 40 % OF FOREX RESERVES
- b) NET FDI INFLOWS ARE A MAJOR FACTOR
- c) BESIDES, 'HOT MONEY' SNEAKES INTO CHINA
- d) RECENTLY, SOME CONTROLS ON INT'L CAPITAL MOVEMENTS WERE RELAXED

4/ THE DEBATE AROUND CURRENT ACCOUNT IMBALANCES

- a) MEANT TO SHOW IMBALANCES BETWEEN DOMESTIC SAVINGS AND INVESTMENTS

- a) THE US MACRO-SAVINGS RATIO WAS 12 % IN 2008, THE CHINESE ONE A STAGGERING 49 %
 - HOUSEHOLD SAVINGS COMPARATIVELY HIGH

 - MUCH BUSINESS-SECTOR SELF-FINANCING

 - GOVERNMENT SECTOR NOW INCURS A SUSTAINABLE BUDGET DEFICIT

b) CURRENT ACCOUNT APPROACH BESET BY
CONCEPTUAL WEAKNESSES

c) UPVALUATION OF THE RMB INEFFECTIVE IN
RESTORING CURRENT ACCOUNT EQUILIBRIUM

- CHINA STILL OBLIGED TO INVEST FOREX
SURPLUSES IN U.S TREASURY PAPER ?

- IMPORTS INTO THE U.S ARE PRICE-ELASTIC

d) CONCERTED EFFORTS (G-20 AT PITTSBURG) ADVISABLE

- THEY ARE PLAUSIBLE

- IN THE USA : MORE SAVINGS (?)

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IN CHINA : FUNDAMENTAL SHIFT IN
DEVELOPMENT STRATEGY IN FAVOR OF INLAND RURAL
SECTOR ...FOR COMPELLING POLITICAL AND SOUND
ECONOMIC REASONS S

→ HEALTH INSURANCE IN RURAL SECTOR

→ LESS SAVING, MORE CONSUMPTION (AND
INVESTMENT ?)

e) UPVALUATION OF RMB , ON CHINESE TERMS, WILL AT
MOST BE GRADUAL