

REAL EXCHANGE RATE VALUATION IN CHINA

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China's accession to the World Trade Organization (WTO) represented an important step in the liberalization of world trade after twenty years of successive trade reforms in China. However, the Chinese trade surplus, in particular with the U.S., has increased rapidly despite these reforms. The objectives of this study are (i) to examine the reasons behind this rising imbalance, (ii) to evaluate the impact of China's accession to the WTO on its trade imbalances, and (iii) to estimate a fundamental equilibrium real exchange rate for the Yuan relative to the U.S. Dollar. Particular attention will be given to the reconciliation between U.S. and Chinese trade statistics, the role of real exchange rate changes and tariffs in bilateral exports and imports between the U.S. and Greater China (China, Hong Kong, Taiwan), and the possible undervaluation of the Chinese Yuan.