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Leir Retreat Center, Fri., 11/3-Sat. 11/4
Session 4: The China Problem
China adjusts

• The RMB was undervalued in 2004-08 by all three kinds of measures (very rare!):
  1. prices were low, even adjusted for income/cap;
  2. the trade and CA surpluses reached high levels;
  3. FX reserves were rising, reaching world-record levels.

• China had adjusted by 2014:
  1. RMB, wages & prices rose => undervaluation ended.
  2. The trade surplus peaked in 2007 at 7% of GDP,
     • then came down to 2% of GDP.
  3. Reserves peaked in 2014, then fell.
1. China’s RMB undervalued ≈ 25-36% in 2000-05 estimated by PPP adjusted for Balassa-Samuelson Cross-section of 118 countries

Real appreciation of Chinese RMB 2005-2014

Figure 1: China Real Effective Exchange Rate
Source: BIS, Deutsche Bank Research

Dooley, Folkerts-Landau, Garber (2014)
RMB undervaluation disappeared by 2011-14
estimated by PPP adjusted for Balassa-Samuelson

M.Kessler & A.Subramanian, PIIE, May 2014
“Is the Renminbi Still Undervalued? Not According to New PPP Estimates”

<table>
<thead>
<tr>
<th>Benchmark years</th>
<th>GDP per capita (in PPP dollars)</th>
<th>RMB undervaluation (percent)</th>
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<tbody>
<tr>
<td>2005</td>
<td>4,802</td>
<td>-34.5</td>
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<tr>
<td>2011</td>
<td>10,057</td>
<td>-9.7</td>
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2. China’s trade & CA surpluses peaked in 2007, and then fell to 2% of GDP.

China runs a deficit in primary products, offset by a surplus in manufactures.

PBoC stopped intervening to push down the RMB. The opposite.


China’s Current Account peaked in 2007 at 10% of GDP and then fell to 2% of GDP.
Slowdown, 2012-2017

China’s growth averaged 10% over 1980-2010, then declined below 7%.

30 years of growth in Chinese GDP