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**“Renminbi Revaluation and China’s Trade Imbalances: A Dynamic Regional
Perspective”**

by

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Abstract

“Renminbi Revaluation and China’s Trade Imbalances: A Dynamic Regional Perspective”

The impact of a real appreciation of the Renminbi on China’s external trade imbalance is examined in the framework of a panel analysis of the determinants of exports and imports, covering the period 1996-2009, disaggregated for 28 Chinese provinces. Novelties of this econometric approach include the distinction between the trade flows of foreign subsidiaries in China, relative to those of domestic corporations, as well as a focus on the role of the forward exchange rate for the RMB. In light of the evolution of this rate, which has rather systemically reflected anticipated appreciations of the Chinese currency, it is contended that the persistent Chinese trade imbalances may actually camouflage hidden "hot money" inflows, reflecting international financial speculation. The impact of a real appreciation of the RMB is shown to be significant in explaining the reported values of international trade of both categories of firms, including, notably, in the case of the forward rate. These results are robust to including a common factor, which also plays a significant explanatory role.