

## Abstract

112001  
001  
ZHU  
C.3

Since implementing reform and opening up, Chinese economy has grown with a rapid speed. From 2000 to 2004, China's average annual GDP growth rate was more than 8.3%. By the end of 2008, China's GDP had increased to US \$ 5,333,230 trillion, becoming the second largest one [as measured in PPP international dollars by the International Comparison Program of the World Bank] after the U.S., passing Japan. Chinese international trade and foreign investment also strongly increased. During the financial crisis of 1997-98, Chinese government, expressing a sense of obligation, raised its international status and prestige by not devaluating the RMB. From then on, rising China began to win trust from its ASEAN neighboring countries. In the current crisis China sealed in beginning of mid-December, 2008 currency swap accords totaling \$ 95 billion with the central banks of South Korea, Malaysia, Indonesia, Hong Kong, Belarus and Argentina. So far China signed bilateral currency swap agreements with more than ten countries and regions. In my thesis, I study the exchange rate system and the position in it of the RMB. First, I have consulted economic theories of the exchange rate. Finding that economists do not agree among themselves on the forces determining exchange rates, I moved the to field of study known as international political economy to find out why China has become under pressure from in particular its first and second largest importers [the EU and the U.S.] to reevaluate the Yuan.

The exchange of RMB now attracts worldwide attention. In early of 2003, Japan put forward the demand that "RMB should appreciate" in the G7 summit. It attributed Japan's deflation and the recession, among other things, to what the Japanese believe to be the undervaluation of RMB. Some policy makers in the U.S. ascribe the trade deficit of their country with China to the same cause. The European Central Bank President, Jean-Claude Trichet, the President of the European Commission Jose Manuel Barroso, and also the EU Trade Commissioner Peter Mandelson, publicly complained about the China-EU trade surplus, hoping to reduce it by the appreciation of RMB. The objective of my study is to find out whether or not such accusations are justified. Therefore, should RMB be appreciated? Why was the policy of maintaining the stability of RMB exchange rate so greatly praised from the world during the financial crisis of late 1990's? What I found is that economic theory can not well explain the reasons. The real reason is that a particular exchange rate policy brings different economic consequences for the various interest groups, causing conflicts among them. In the reality, the choice of the exchange rate system is often the outcome of the game among a variety of economic and political domestic and international forces. Therefore, the exchange rate is studied, in addition to economists, also by political economists. The latter take into account that exchange rate policy has distributional effects, impacting on who gets what , when and how. Therefore, RMB exchange rate must also be considered at the political level, including not only domestic political factors, but also the international political factors. My most important findings are that: (1) the various economic theories have performed rather badly in empirical tests; (2) Chinese global trade surplus is not excessive; (3) RMB appreciation relative to Dollar and Euro cannot solve the global level imbalance between savings, investments, government spending and deficit; (4) vote seeking politicians tend to make things worse.

**Key words:** the exchange rate; the appreciation of RMB; the exchange rate regime