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Exchange rate and International Relations

Case Study of Plaza Accord
and
RMB Exchange Rate Reform

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Thesis submitted in partial fulfillment of the requirements for the degree of Master of Arts in International Relations and Public Policy
at the University of Macau
10th September, 2012(Monday)

Statement

I, Liang Qihua, hereby state that this thesis is my own and original work, apart from the sections where origins are clearly stated. All the materials in this thesis have never been used (partially or wholly) in fulfilling the requirements for any degree or qualification in this or other universities prior to this submission.

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Abstract

Exchange rate has been a long term issue in economics, but until today, economics theory still cannot explain how the exchange rate level is determined and what makes exchange rate change. Of course, the economy explanations of exchange rate are very important, but one state's exchange rate, especially big power's exchange rate is determined by the interaction of a variety of political and economic factors. The issue of exchange rate is never an economy issue, is a political economy issue. In this paper, I am going to study the Plaza Accord in 1985 and 2005 RMB exchange rate reform with international political economy theory, constitute power and international monetary theory. This paper demonstrates that because the United States is powerful in the four structural powers and in the relations of international monetary power than China and Japan, this make the United States can put pressure on these two countries and China and Japan cannot say no to United States' requires. But China is not ally of the United States, it does not depends on United States in security structure. And United States' power is not unlimited, with the expansion of current account deficit and confident reduction of market factors to United States, these conditions makes China's reform can be progressive.

Key words: RMB exchange rate, International Political Economy, Constitute Power, International Monetary Power

Acknowledgements

First and foremost, I would like to express my sincere gratitude to my supervisor, Professor Chen Dingding, whose encouragement, guidance and support from the initial to the final stage enabled me to develop a deep understanding of this subject and eventually complete the thesis.

I also would like to thank all professors in the master program of international relations and public policy for their informative lectures and kind assistance.

Lastly, special appreciation is given to my family and those who support me in any respect for their endless love and care during these years.