RMB exchange rate and trade balance

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Abstract  Gang Yi—Deputy Governor and Administrator, State Administration of Foreign Exchange (SAFE), People’s Bank of China—returned to Indiana University-Purdue University Indianapolis (IUPUI)—where he was awarded an honorary degree. Following are remarks and a lecture on the Chinese economy he presented on April 18, 2012.

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1. Greetings

Thank you very much. Dear President and Dean, Department Chairman, dear colleagues and friends, ladies and gentlemen. It is truly an honor and a privilege for me to receive this honorary degree. As you all know, I left Indiana University-Purdue University Indianapolis almost two decades ago and after all this time, my colleagues at the Department of Economics nominated me for this honorary degree. IUPUI, Indiana University, and Indianapolis are very special to me and my family. This is our second hometown and we have all kinds of beautiful memories from IUPUI and Indianapolis. This is the place where I got my first job; this is the place our son was born; this is the place where I wrote many academic papers and publications; and this is the place I taught more than 1200 students.

Today I would like to take this opportunity to express my thanks to my colleagues in the Department of Economics and the School of Liberal Arts, who created such a friendly environment which enabled me to focus on my teaching and research. Here is the place I learned United States university best practices in terms of academic curriculum, faculty governance, teaching, and research. Here is the place I learned how university research connected with industries, how to make the research useful and rewarding for industries, and how to keep this kind of innovation and research going on forever.

I think those experiences benefited me tremendously, both in my academic work at Peking University and in the work I’ve done as a central banker. It is this place, it is this community, that made me and my family feel at home. We have worked here and lived as ordinary people and paid taxes, participated in community activities and community service in the neighborhood. We truly have all-around, beautiful memories of IUPUI and Indianapolis.

I will be proud forever that today I received this honorable degree. It will motivate me to work with a better attitude and calmer emotions. It will encourage me to continue to work hard to promote friendship between the people of China and the United States, and academic cooperation between the universities of the two countries.

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2. The Chinese economy and the RMB exchange rate

I would like to take this opportunity to give a lecture on the Chinese economy. There is much interest in the Chinese economy and the RMB exchange rate. I would like to discuss a bit of the history of the RMB exchange rate converging to equilibrium.

2.1. China economic update

The growth rate of China in the past decade as depicted in Figure 1 consists of the contribution from Net Exports (dark gray bars), Domestic Consumption (light gray bars), and Gross Capital Formation (black bars).

This chart shows not only the growth rate, but also the components of growth in the Chinese economy. In most years, the Net Export is very important to Chinese growth except in the crisis situation. After the Lehman crisis, in 2009, the world economy was in a recession and the Net Export had a negative contribution to Chinese growth.

Figure 2 illustrates the Trade Surplus and the Current Account Surplus as a percentage of GDP of China. The bars indicate Trade Surpluses. The gray line is the Trade Surplus as a percentage of GDP while the black line is the Current Account Surplus as a percentage of GDP.

In the past 5 years, the surplus as a percentage of GDP has been declining and the peak happened in 2007 when it was over 10%. In 2011, the Current Account Surplus as a percentage of GDP came down

Figure 2. Current account

- Trade surplus and current account surplus have kept trending lower since 2008.
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