

## What Is Wrong with the Chinese Currency?

Kan Yue and Kevin H. Zhang

Department of Economics  
Illinois State University  
Normal, IL 61790-4200, USA

Phone: (303) 438-8928

Fax: (303) 438-5228

Email: [khzhang@ilstu.edu](mailto:khzhang@ilstu.edu).

### Abstract

The Chinese currency (Renminbi, or RMB) and China's exchange rate regime have become a hot debating topic in both academic and policy-maker circles due to the global imbalance in the world economy. This paper intends to address five issues arising from China's exchange rate regime. (a) Is RMB undervalued? (b) Will US trade deficits fall significantly if China revalues RMB? (c) Why does China peg its currency to the US dollar? (d) How does China accumulate such considerable foreign exchange reserve? (e) Why is China reluctant to Change its exchange rate regime? Analysis and evidence suggest that while RMB seems to be undervalued against the US dollar in terms of nominal exchange rate; its real effects exchange rate is not. The US trade deficits will most likely unchanged or continue to rise even if RMB appreciates against the US dollar. China's exchange rate regime may adjust gradually but not radically in the short run due to domestic constraints. The large foreign reserves seem to provide China with certain protection from global financial crisis.

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and Financial crisis