

COMPLETION REPORT

Research Summary

After China acceded to the WTO in 2001, China's exports increased dramatically. China's exports to Japan also grew very quickly. In 2005, China abated its fixed exchange rate against the U.S. dollar and began to reevaluate the yuan. In this project, I investigate whether or not the appreciation of RMB reduces or fosters the Sino-Japan trade balance. In particular, the effect of the revaluation of the Chinese yuan on imports to Japan from China is conducted by augmenting the gravity model with the exchange rate. By using an industrial panel data set during the period 2002-2007 and controlling for the endogeneity of the bilateral exchange rate, I find that a 10% appreciation of Chinese Yuan would reduce the American imports from China around 16%. Moreover, the revaluation of the Chinese Yuan against the U.S. dollar might have considerable effect to reduce imports to Japan from China.

This finding has rich policy implications. Since the variation of the RMB significantly reduces the Sino-Japan bilateral trade imbalance, it would have the beneficial effect of relieving trade tensions between the two giants. However, RMB revaluation, with little doubt, would make it more difficult for Chinese exporters to export, which in turn would affect China's future economic growth given that export growth has been one of main driving forces in China's economic miracle in recent years. Therefore, to maintain the high economic growth rate, China should adopt effective policies to stimulate domestic demand for domestic products.

Publication of the Results of Research Project:

Verbal Presentation (Date, Venue, Name of Conference, Title of Presentation, Presenter, etc.)

July 5, Aichi University, ICCS, Nagoya, Japan, "RMB revaluation and China's Trade", invited seminar, presenter.

Thesis (Name of Journal and its Date, Title and Author of Thesis, etc.)

Miaojie Yu, "Does Revaluation of the Chinese Yuan Decrease Imports to the U.S. from China?" *Contemporary Economic Policy*, forthcoming, 2011

Miaojie Yu, "Revaluation of the Chinese Yuan and Triad Trade: A Gravity Assessment", *Journal of Asian Economics*, 2009, 20, pp.655-668.

Book (Publisher and Date of the Book, Title and Author of the Book, etc.)