

Fundamentals call for the narrow band of RMB

—Balassa-Samuelson effect in China and its implications

Ding Jianping

dingjp@mail2.online.sh.cn

Abstract

It has been long debates over the band of fluctuation of RMB. Ever since Japanese MoF Chief Masajuro Shiokawa took office, he has long advocated revaluation of RMB. The voice has been echoed by someone in White House and the followers. However the China's fundamentals indicate that it is not proper time for China to enlarge the band and revaluation of RMB. If measured by the productivity in tradable-sector, Chinese yuan should be revaluated along with its export surge, however, if measured by the competitiveness in non-tradable sectors (especially in the tertiary industry), yuan might be devaluated in accordance with the Balassa-Samuelson effect. The paper simulates the model with the data between 1993 and 2002 (monthly data), ECM (Error Correction Model) confirms the above arguments. It is the migration of farmers that made the deviation of the model unique to China.