
**THE IMPACT OF CNY REAL EXCHANGE RATE ON CHINA'S
BILATERAL TRADE WITH THE U.S**

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ABSTRACT

This thesis uses Co-integration Test and Error Correction Model to investigate the effect of CNY real exchange rate on China's bilateral trade with the U.S. The model utilizes China and U.S economic variables, namely, bilateral trade balance, CNY real exchange rate, and GDP. The sample data is from 2005.Q1 to 2011.Q4. The major results suggest that GDP for the U.S plays an important role in China's bilateral trade to U.S. GDP for China and CNY real exchange rate have limited effect on China's bilateral trade to U.S.

Keyword: CNY Real Exchange Rate, China's Bilateral Trade to U.S, GDP for China and GDP for the U.S, Co-integration Test and Error Correction Model.

ABSTRAK

Tesis ini menggunakan ujian kointegrasi dan Model Pembetulan Ralat untuk mengkaji kesan kadar pertukaran CNY sebenar ke atas perdagangan dua hala China ke U.S. Model ini mengandungi pembolehubah ekonomi China dan U.S, imbangan perdagangan dua hala, kadar pertukaran CNY sebenar, dan KDNK. Data sampel adalah dari 2005.Q1 ke 2011.Q4. Keputusan utama mencadangkan bahawa KDNK untuk U.S memainkan peranan yang penting dalam perdagangan dua hala China kepada U.S KDNK untuk China bagi U.S dan kadar pertukaran CNY mempunyai kesan yang terhad kepada perdagangan dua hala China ke U.S.

Kata Kunci: CNY Kadar Pertukaran SeBenar, Perdagangan Dua Hala China ke Amerika Syarikat, KDNK bagi China dan KDNK bagi U.S, Ujian Cointegrasi dan Model Pembetulan Ralat.

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TABLE OF CONTENT

PERMISSION TO USE.....	i
ABSTRACT.....	ii
ABSTRAK.....	iii
ACKNOWLEDGMENT.....	iv
TABLE OF CONTENT.....	v
List of Abbreviation.....	viii
List of Chart.....	ix
List of Tables.....	ix
List of Figures.....	x
CHAPTER 1:	
INTRODUCTION.....	1
1.0 Background.....	1
1.1 Problem Statement.....	6
1.2 Objectives of Study.....	8
1.3 Research Questions.....	9
1.4 Significance of Study.....	9
1.5 Structure of Study.....	10
1.6 Summary.....	11
CHAPTER 2:	
THEORETICAL FRAMEWORK AND LITERATURE REVIEW.....	12
2.0 Introduction.....	12

2.1 Effect of Exchange Rate to Bilateral Trade	12
2.2 Theories.....	22
2.2.1 Theory of Elasticity.....	22
2.2.2 Absorption Approach.....	23
2.3 Theoretical Framework.....	23
2.3.1 China’s Bilateral Trade to U.S and CNY Real Exchange Rate	24
2.3.2 China’s Bilateral Trade to U.S and GDP for China	24
2.3.3 China’s Bilateral Trade to U.S and GDP FOR U.S	25
2.4 Summary	26
CHAPTER 3:	
DATA AND RESEARCH METHODOLOGY	27
3.0 Introduction.....	27
3.1 Collection of Data	27
3.1.1 CNY Real Exchange Rate.....	28
3.1.2 CPI	30
3.1.3 GDP.....	31
3.1.4 China’s Bilateral Trade Balance	32
3.2 Methodology	33
3.2.1. Augmented Dickey-Fuller (ADF).....	33
3.2.2 Johansen Co-integration Test.....	33
3.2.3 Error Correction Model.....	35
3.3 Descriptive Analysis	36
3.4 Summary	40
CHAPTER 4:	

RESULTS AND FINDINGS	41
4.0 Introduction.....	41
4.1 ADF Test.....	41
4.2 Co-integration Test	43
4.3 Error Correction Model (ECM)	46
4.4 Discussions on findings	47
4.6 Summary	49
CHAPTER 5:	
CONCLUSION AND RECOMMENDATIONS.....	50
5.0 Introduction.....	50
5.1 Conclusions.....	50
5.2 Recommendations.....	52
5.3 Summary	55
REFERENCES:	56

List of Abbreviation

ECM	Error Correction Model
CNY	Chinese Yuan
WTO	World Trade Organization
GDP	Gross Domestic Product
CPI	Consumer Price Index
NEX	Net Trade Balance
IM	Imports
EX	Exports
RER	Real Exchange Rate
NER	Nominal Exchange Rate
GDP_c	GDP for China
GDP_u	GDP for the U.S
CPI_c	CPI for China
CPI_u	CPI for the U.S
ARDL	Auto Regressive Distributed Lag
OCED	Organization for Economic Co-operation and Development

List of Chart

Chart 1.1 The Percentage of China's Exports to Its Partners -----	2
Chart 1.2 The Percentage of China's Imports to Its Partners -----	3

List of Tables

Table 1.1 The Phases of CNY Exchange Rate Regime -----	5
Table 2.1 Examples of Past Literature on The Effect of CNY Exchange Rate on China's Bilateral Trade to U.S -----	21
Table 3.1 CNY Exchange Rate -----	37
Table 3.2 China's Trade Balance to U.S -----	38
Table 3.3 CNY Exchange Rate and China's Trade Balance to U.S -----	39
Table 4.1 Results for ADF Unit Root Tests at Level-----	42
Table 4.2 Results for ADF Unit Root Tests at First-Difference -----	42
Table 4.3 Results for Johansen Co-integration -----	44
Table 4.4 Results for Johansen Co-integration -----	45
Table 4.5 Results for Error Correction Model -----	46

List of Figures

Figure 1.3 CNY Nominal Exchange Rates against U.S Dollar -----	4
Figure 2.1 Theoretical Frameworks -----	25
Figure 3.1 CNY Exchange Rate and CNY Real Exchange Rate -----	29
Figure 3.2 CPI for China and CPI for the U.S -----	30
Figure 3.3 GDP for China and GDP for the U.S -----	31
Figure 3.4 China's Net Trade Balance to U.S -----	32

CHAPTER 1

INTRODUCTION

1.0 Background

Under the background of economic globalization, international trade drives the economic development and promotes efficient allocation of resource. The exchange rate is the ratio of two countries' monetary unit. Exchange rate performs the function of conversion between different prices in the international financial and trade activities. It's an important indicator of a country's international economic activities. The change in exchange rate has a profound impact on the development of both international trade and the domestic economy. Since 2001, China's trade surplus and foreign exchange reserve have kept increasing, which brings huge pressures to the Chinese government. Western countries state that China's trade surplus caused the imbalance in international trade. The study focus is on the issue of the impact of CNY real exchange rate on China's bilateral trade with U.S.

Since China joined WTO, the volume of China's international trade has experienced significant growth. In 2008, due to the subprime crisis, the global economy experienced a downturn. In 2009, foreign demand for Chinese exports reduced. However, China rebounded in a short time, outperformed other countries in 2010

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