



## Symposium Introduction

# Introduction to the Symposium on China's Exchange Rate

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This symposium consists of three papers presented at a session on 'China's exchange rate' at the annual meeting of the Association for Comparative Economic Studies in Atlanta, January 2010. Although China's exchange rate policy has become an issue of intense debate within international policy circles, its importance reaches far beyond the matter of the possible misalignment of the Chinese renminbi. The three papers in the symposium reflect this by examining three separate research questions all related to China's exchange rate policy.

The paper by Aaron Mehrotra and José R. Sánchez-Fung evaluates China's monetary policy by estimating empirical policy reaction functions for the People's Bank of China, and the importance of the exchange rate in setting domestic monetary policy. The authors find that Chinese monetary policy has been largely procyclical, and that shocks to the effective exchange rate do not exert an important influence on domestic monetary policy. This is likely to stem from capital controls that have allowed independence in monetary policy despite the fixed exchange rate. There is also no evidence of a structural break in the setting of domestic monetary policy when China ended its strict dollar peg in July 2005.

The study by Jarko Fidrmuc estimates the structure of the undisclosed currency basket of the renminbi since 2005. The modeling strategy involves using the Kalman filter with time-varying parameters and non-differenced data. This approach allows for detecting the change in the exchange rate policy already in July 2008, prior to the intensification of the global financial crisis in September 2008. According to the results, other currencies than the US dollar have not played a major role in the undisclosed currency basket.



In the third study of the symposium, Yuqing Xing estimates the exchange rate pass-through for the United States and Japanese imports from China. He finds that Japanese import prices are more responsive to changes in the bilateral exchange rates than the United States ones. However, the de facto dollar peg and the use of the dollar as an invoicing currency for Chinese exports to Japan play an important role here. After controlling for the currency invoicing factor, the small pass through estimates suggest that an appreciation of the renminbi would only modestly impact China's exports.

All three papers were revised after the conference, subsequently refereed by anonymous referees and evaluated by the symposium editors. The session in Atlanta was chaired by Aaron Mehrotra, and the discussants for these three papers at the Atlanta meetings were Sushanta Mallick, Xiaobo Zhang, and Wing Thye Woo.