

Abstract

THE EFFECT OF A GENERALIZED APPRECIATION IN THE EXCHANGE RATES OF EAST ASIAN CURRENCIES ON U.S. TRADE IMBALANCES

Gordon R. Smith, Ph.D.

George Mason University, 2008

Thesis Director: Dr. Willem H. Thorbecke

China's trade surplus with the United States accounts for approximately 30 percent of the U.S. trade deficit with the rest of the world. Many have argued that an appreciation of the RMB would help to narrow the U.S. trade deficit and restore order to global accounts. Using a panel data set including China's exports to 33 countries, I find that a 10 percent RMB appreciation would reduce ordinary exports by 11 percent and processed exports by 3 percent. However, given the nature of ordinary exports and processed exports, a generalized appreciation in East Asia would generate a greater impact on the U.S. trade deficit. A 10 percent appreciation of all East Asian currencies would reduce ordinary exports by 11 percent and processed exports by 9 percent. Since ordinary exports tend to be simple, labor-intensive goods while processed exports are sophisticated, capital-intensive goods, a generalized appreciation in East Asia would generate more expenditure switching towards U.S. goods and contribute more to resolving global imbalances than a unilateral RMB appreciation alone.