

# **The trade rebalance effect and the exchange rate pass-through of renminbi**

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## **Abstract**

China's trade imbalance (surplus) sharply had deteriorated in the 2000s and returned to an acceptable level in the last decade. Referring to the large change of China's exchange rate regime in the last decade, this paper aimed to illustrate whether the renminbi exchange rate effectively helped rebalance China's large trade surplus in 2000s, especially after 2005 when China switched its exchange rate regime from the dollar-peg to the managed floating regime. By employing structural vector autoregressive (SVAR) model and time-varying parameter VAR (TVP-VAR) model, this paper found that the appreciation of renminbi generally helped reduce China's large trade surplus during 1998-2016, but this rebalance effect varied over time. Moreover, I found that the increased exchange rate pass-through could partially explain the increased trade rebalance effect of the renminbi after the global financial crisis.

**Keyword:** renminbi, trade rebalance, exchange rate pass-through, TVP-VAR

**JEL Classification:** F31, F32