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# Is the Chinese Currency Undervalued? Empirical Evidence and Policy Implications

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## Abstract

This article estimates the equilibrium value of the Chinese currency Renminbi (RMB) by controlling for the per capita income level and structural changes in the 1980s and 1990s. It finds that the Chinese currency is moderately undervalued by 22%. Revaluation to the equilibrium level can lead to a net efficiency gain for both China and the rest of the world, although the adjustment should be carefully designed and implemented. I suggest that the revaluation be a one-time adjustment combined with a control on the capital account, to minimize damages from speculations in the foreign exchange market.

 Keywords: [China](#) [currency](#) [valuation](#) [undervalued](#)

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