

China Makes a Step forward towards a RMB Currency Area

By MURASE Tetsuji

In December 2008, the Standing Committee of the State Council of the People's Republic of China decided to allow its currency, Renminbi (RMB), to be used in international transactions with some of its trade partners; it will be allowed, as a part of a pilot project, to be used to settle trade payments between a) Hong Kong and Macao, and the Pearl and Yangtze river delta regions including Shanghai as well as Guangdong province, and b) ASEAN member countries and the Guangxi Zhuang autonomous region as well as Yunnan province. Actually, the RMB had already been used as settlement currency in China's authorized border trade with Mongolia, North Korea, Myanmar, Vietnam, etc. But with the above decision, the State Council aims for a full-fledged pilot project that involves major trading areas. Thus, this marks a first step on the road to making the RMB an international currency.

In order to settle trade payments in the RMB, foreign banks that finance exporters and importers must keep RMB accounts and be authorized to buy, sell and hold the RMB required for the settlement. Foreign (non-resident) banks should be able to open RMB accounts and to undertake spot and forward exchange dealings in the Shanghai market. To begin with, the Bank of China's Hong Kong subsidiary and Hongkong and Shanghai Banking Corporation (HSBC) in Hong Kong are reported to have been authorized to open such accounts respectively with the Bank of China and Bank of Communications in Shanghai. Hong Kong has started on the path to become the RMB offshore center.

In order for the RMB to prevail in future intra-regional trade in East Asia, not only banks but also non-resident traders must be allowed to open RMB accounts (either in China or off-shore). However, as wider possession of RMB among non-residents should risk speculative selling of RMB, Chinese monetary authorities would take cautious stance on lifting the ban on the access to RMB accounts by non-residents in general. In fact, Yi Gang, Vice Governor of the People's Bank of China, said at the National People's Congress in March 2009 that there is no need to rush for the internationalization of the RMB (Nihon Keizai Shimbun, March 10, 2009).

Chinese academic circles seem to be divided into two groups over the necessity of a regional monetary regime in East Asia, namely "the cooperation

school" and "the non-cooperation school." The former argues, from a standpoint of regional common interests, that the RMB should be pegged to a common currency basket and be "Asianized" by stabilizing effective exchange rate, while the latter argues that it is not important or even damaging to Chinese national interests to promote monetary cooperation in East Asia, because China is gaining a competitive edge in the region, which will lead to an "RMB currency area" eventually. Both groups agree that RMB, against the backdrop of rapid economic growth of China, will in the long run become one of the key currencies in Asia.

The year 2009 is likely to be recorded as the one in which China marked the first important step towards a "RMB currency area." It remains to be seen exactly what will become of it, but it is at least certain that RMB has now started to go international, though only to a limited extent. Japanese leaders must seriously discuss what the currency regime in the region should be and how Japanese Yen and RMB should be positioned in Asia. We have no time to lose.

(This is the English translation of an article written by Mr. MURASE Tetsuji, Professor of Ryukoku University, which originally appeared on the BBS "Hyakka-Somei" of CEAC on March 31, 2009.)