Yuan unlikely to rule in short term

Experts agree reforms must come first

Published 15 Oct 2012 at 07:07 AM
Newspaper section: Business

While some observers argue the Chinese renminbi could emerge as the potential rival to the US dollar and dominate Asia’s currency market, the chance is likely to be remote for at least the next two decades, according to experts.

Asia is far too diverse in terms of economic development standards to utilise a single currency, while China still lacks certain necessary fundamentals for the liberalisation of the yuan, according to experts speaking at a seminar on Saturday at the 6th Asia-Europe Editors’ Roundtable.

Jae-Ha Park, a deputy dean at the Asian Development Bank Institute, said a regional single currency model is unrealistic for the Asian region given the diversity that exists among countries.

“Asia is so much more diverse than the European countries for any regional single currency to prevail,” he said, adding that the economies of Laos, Myanmar and Cambodia pale in size when compared with Japan, South Korea or China.

Dr Park said implementing exchange rate stability mechanisms will provide a better solution to curtailing exchange rate fluctuations, thereby enhancing trade and investment.

Jiu Guiyuan, secretary general of the Research Center for International Finance (RCIF) at the Chinese Academy of Social Sciences (CASS) echoes similar concerns, saying that the renminbi is not completely ready to be internationalised.

The exchange rate should first be led by the market and should be at the right level before any internationalisation can take place.

“There are distortions that could contribute to the over-valuation or under-valuation of the currency, then liberalisation will bring about arbitrage between the offshore and onshore market,” Dr Guiyuan said, adding that the exchange rate regime (of the Renminbi) is currently not completely decided by the market.

“Exchange rate reforms should come first, before liberalisation and now the authorities have been actively pushing for reforms of the exchange rate regime,” he said.

As well, he maintains that microfinance in China is also not strong enough to support yuan internationalisation at the moment.

“ Pricing power of Chinese companies is not strong enough compared to American or Japanese companies because Chinese companies are predominantly involved in the production of comparatively low value-added goods,” he said.

“The currency is ultimately chosen by the market and if Chinese companies have poor pricing power, then they have no advantage to choose which currency they want to use in international trade.”

China also imports large amounts of commodities such as oil and iron ore which contribute 30-40% to its total imports.

“All these are priced in dollars and cannot be changed, therefore the space for yuan liberalisation is very limited,” Dr Guiyuan said.

Nevertheless, Dr Guiyuan remains optimistic that the internationalisation of the yuan will naturally occur along with the economic development of China although it will be policy-driven.

In the meantime, Asian countries should cooperate more, possibly by intervening in the currency market or utilising currency swap mechanisms.