URL: http://www.bangkokpost.com/business/asef/317017/yuan-unlikely-to-rule-in-short-term

Yuan unlikely to rule in short term

Experts agree reforms must come first

Published: 15/10/2012 at 07:27 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.

Stablising exchange rates is a better solution to enhancing trade and investment, says Dr Park. THITI WANNAMONTHA

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 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 amongst 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 curbing exchange rate fluctuations, thereby enhancing trade and investment.

Xu Qiyuan, 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.

"If there are distortions that could contribute to the over-valuation or undervaluation of the currency, then liberalisation will bring about arbitrage between the offshore and onshore market," Dr Qiyuan 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 Qiyuan said.

Nevertheless, Dr Qiyuan 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.

Gold prices down 100 baht

The Gold Traders Association this morning set the buying prices at 25,135.28 baht per baht-weight for gold ornaments and 25,500 baht per baht-weight for gold bar.

Forum

- Should you be buying Property in Thailand ?
- Why do ONLY foreigners get special promotion?
- Buying property in Thailand
- Re: Farangs Barred From Buying Thai Land
- Freedom of Ownership by Owning Boathouse
- reciprocal agreements
- Please reccomence