China’s Plan on RMB

What is the issue?

\n\n

The internationalisation of the Chinese currency, the Renminbi (RMB), has been one of the key objectives of Chinese economic reform.

\n\n

What were the concerns before Chinese on RMB?

\n\n

\n
- The process of internationalisation of the Chinese currency was steady up until August 2015.
\n
- When a cumulative 3 per cent devaluation, as part of exchange rate reform, roiled the financial and the stock markets and triggered capital flight.
\n
- This led to a reversal, at least temporarily, of current account convertibility, re-imposition of some controls on capital flows, including repatriation of profits and restricting overseas direct investment (ODI) by Chinese conglomerates.
\n
- These measures also had a dampening impact on the offshore RMB market, both in RMB-denominated bank deposits held abroad and in the issuance of RMB-denominated bonds in offshore financial markets such as Hong Kong and Singapore.
\n
- The market-determined exchange rate for the RMB is not on the cards, the ongoing trade war with the US may also have a dampening impact.
\n

\n\n

What were earlier measures of China in this regard?

\n\n

\n

- The August 2015 reform had linked the exchange rate to two variables, tracking the value of 13 major currencies on a weighted basis.
  \n
- With the dollar as its largest component (26 per cent), followed by the euro (21 per cent) and the Japanese yen (15 per cent), the other reform was closing rate of the previous day.
  \n
- This limited exchange rate variability was later constrained by the introduction, in May 2017, of a third “counter-cyclical adjustment factor”, which means that the central bank will intervene whenever deemed necessary in case of market volatility.
  \n

\n\n

What is the recent plan of china on economy?

\n\n

\n

- Recently, China’s Asset Management Association has allowed Fidelity International to launch a fund in the country for Chinese institutional investors, but in collaboration with Chinese banks.
  \n
- The Union Bank of Switzerland is another licensee, It is expected that China will finally open up its banking sector to foreign investment.
  \n
- China is opening up its large bond market, currently estimated at $9.4 trillion, to foreign institutional investors.
  \n
- Foreign firms can now own up to 51 per cent of domestic securities, insurance and fund management firms and even this cap will be removed in three years.
  \n

\n\n

\n

- Hedging by private foreign investors up to the amount of funds they are managing would now be permitted for the first time.
  \n
- Chinese domestic financial institutions are being encouraged to conduct their overseas financing business for the BRI projects in the RMB.
  \n

- An important avenue for internationalisation of the Chinese currency has opened up with the setting up of the Shanghai International Energy Exchange in March this year.
\n
- The exchange has become a platform for trading in oil futures denominated by the RMB.
\n

\n\n

What are the expected outcomes from the plan?

\n\n

\n
- Due to the recent development in Chinese currency China's own crude oil futures trading activity is being progressively shifted from dollar to yuan.
\n
- This may be further accelerated as a result of US sanctions against Iran's export of oil. China, which is a large importer of Iranian oil, is likely to use its petro-yuan to bypass payment in dollars, Russia, too, may find it convenient to use this channel.
\n
- The international use of the RMB will, therefore, expand significantly, As India is a large importer of oil and faces sanctions if it continues to import Iranian oil, this development may offer a possible solution.
\n

\n\n

\n\n

Source: Business Standard

\n

IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative