

II. International Monetary Study II for KUINEP

Chinese RMB –renminbi, yuan, 人民幣、元

*the only major Asian currency that stayed out of the
Asian monetary crisis*

April-July 2004

1. Foreign exchange control system and convertibility of the renminbi (外国為替管理制度と人民元の交換性)

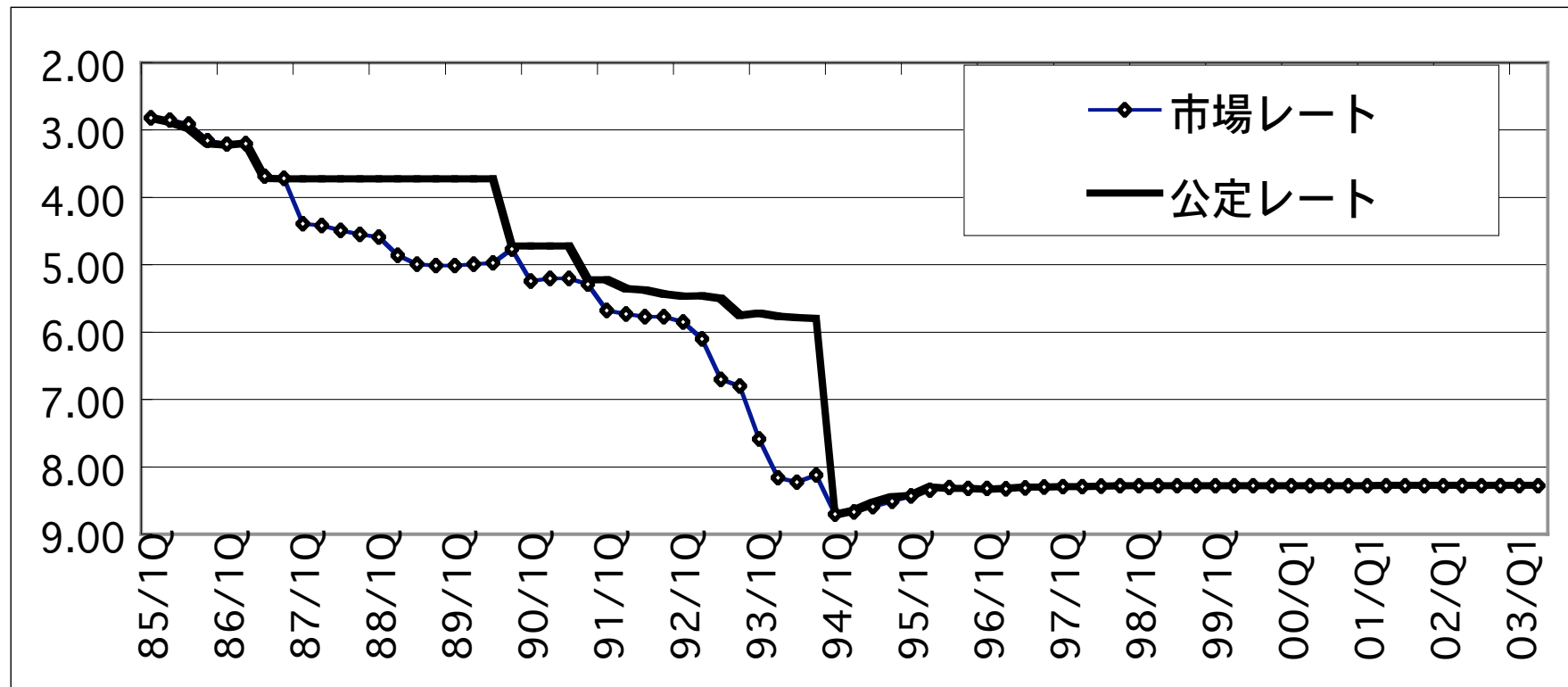
- (1) Dual exchange rate system until end 1993 (二重為替相場制) : coexistence of **official rate (fixed rate** at 1 US\$=5.7 RMB)and **market rate (floating rate)**
→Figure 4.1
- (2) Jan. 1994 : Unification of dual exchange rates and reform of the **foreign exchange control system**
→the managed floating exchange rate system (単一の管理変動相場制)

Definition of 'foreign exchange' _____ by_American Heritage® Dictionary

1. Negotiable bills drawn in one country to be paid in another country.
2. Transaction of international monetary business, as between governments or businesses of different countries.

Changes in RMB rate 人民元相場の推移

(market rate *in dotted line* and official rate: source BTM)



- (3) Dec. 1996: China moved to **IMF Article 8 nation** from Article 14 nation →no restriction on current account transactions (capital account transactions may be regulated) 經常取引の規制不可 (資本取引規制は可)
RMB gains prima facie convertibility in current account transactions, but in reality...
- (4) July 1997: Outbreak of **the Asian monetary crisis!**
China managed not to be affected directly by the crisis due to its **strict foreign exchange control system.**
- (5) Dec. 2001: China joined **WTO.**
RMB gains current account convertibility in the real sense of the term.

Relations between IMF agreement and GATT (WTO agreement) regarding currency convertibility

During Bretton Woods era *(1945~1971)*

- IMF§14 + GATT§12 restrictions on current a/c transaction allowed in finance and trade
 - IMF§8 + GATT§11 free current a/c transactions in both area
- Currency gains current a/c convertibility!

Today

- There is no direct linkage between IMF and WTO agreements.
- When China became IMF§8 nation, it was not a member of GATT (WTO).
- Now China is a WTO member, RMB gains current a/c convertibility.

What is **currency convertibility (通貨の交換性)** ?

- (1) **Convertibility in current account transactions (限定的交換性)**: Chinese RMB, Korean won, Thai bahts...
- (2) **Full convertibility (完全な交換性)** : The currency is freely traded at a single exchange rate in international markets, such as US dollar , euro, yen, Hong Kong dollar, Australian dollar and other international currencies.
- (3) The ultimate goal of the Chinese foreign exchange policy is to realize full convertibility of the RMB in future.

2. Features of China's balance of payments (中国の国際収支の特徴)

- (1) **Double surpluses** of current a/c and capital a/c.
(nota bene: in 1980s China's current a/c was in deficit, which was covered by capital a/c surplus.)
双子の黒字
- (2) **FDI** as a main driving force of export expansion
対内外国直接投資が輸出増大に寄与
- (3) High share of **processing trade** (委託加工貿易):
55.3% in 2001, and foreign funded enterprises (外資系企業) 50.1% in export
- (4) Problem of **capital flight/inflow** (資本逃避・流入)

China's Balance of Payments

		94	95	96	97	98	99	2000	2001	2002
經常収支current a/c		69	16	72	297	293	157	205	174	
	貿易収支trade	73	181	195	404	466	362	345	340	
	輸出 export	1,026	1,281	1,511 (1.5)	1,827 (20.9)	1,835 (0.5)	1,947 (6.1)	2,491 (27.9)	2,662 (6.8)	
	輸入 import	▲ 953	▲ 1101	▲ 1315 (5.1)	▲ 1424 (2.5)	▲ 1369 (▲ 3.9)	▲ 1585 (15.8)	▲ 2147 (35.5)	▲ 2322 (8.2)	
	サービス収支services	3	▲ 61	▲ 20	▲ 57	▲ 49	▲ 75	▲ 56	▲ 59	
	所得収支income	▲ 10	▲ 118	▲ 124	▲ 159	▲ 166	▲ 180	▲ 147	▲ 192	
資本収支capital a/c		326	387	400	230	▲ 63	76	19	348	
	直接投資資産FDI	▲ 20	▲ 20	▲ 21	▲ 26	▲ 26	▲ 18	▲ 9	▲ 69	
	負債	338	358	402	442	438	388	384	442	
	証券投資資産 portfolio investment	▲ 4	1	▲ 6	▲ 9	▲ 38	▲ 105	▲ 113	▲ 206	
	負債	39	7	24	77	1	▲ 7	73	12	
	その他投資資産 other investment	▲ 12	▲ 11	▲ 11	▲ 339	▲ 350	▲ 244	▲ 435	208	
	負債	▲ 15	51	13	84	▲ 86	63	123	▲ 39	
誤差脱漏error & omission		▲ 91	▲ 178	▲ 155	▲ 170	▲ 166	▲ 148	▲ 119	▲ 49	
外貨準備増減foreign reserve movement		▲ 305	▲ 225	▲ 317	▲ 357	▲ 64	▲ 85	▲ 105	▲ 473	
(参考)										
外貨準備高(年末)foreign reserve		516	736	1,050	1,400	1,450	1,547	1,656	2,122	2,864

WTO accession and balance of payments 中国のWTO加盟と国際収支

- Expected trend of BP after WTO membership 事前の予想:
 - **Current account surplus will drop** by smaller trade surplus and larger service and income account deficits.
 - **Inward FDI will increase** in capital account (risk factor is a possible surge of capital flight).
- BP of 2002
 - Trade surplus US\$442 bio
 - Inward FDI (commitment) US\$82.8 bio (+19.6 %)
 - Inward FDI (disbursement) US\$52.7 bio (+12.6 %)
- BP of 2003
 - Trade surplus US\$25.5 bio (*customs basis)
 - Inward FDI (disbursement) US\$ 53.5 bio

3. Current Issues in Financial Sector

金融部門の問題

(1) Bad assets & risk management of state owned banks

4大国有銀行の不良債権とリスク管理

- Problems:

- (a) low profitability 低い利益率

- (b) **Bad Assets** (NPL : non-performing loans) ratio of ca. 20.3% (official figure, end 2003), in reality 40% (S&P estimate) 高い不良債権比率

- © poor risk management system and corporate governance リスク管理体制の不備

- Solution to bad assets problems depends greatly on the fate of **SOE** (state owned enterprises) reform

国有企業改革が問題解決の決め手

(2) Short-term money market 短期資金市場

Unit: RMB100 mio	1998	1999	2000	2001	2002
Annual turnover of interbank money transactions	2,031	7,339	22,540	48,215	113,989
Call loans	989	3,292	6,728	8,082	12,102
Repos	1,042	4,047	15,782	40,133	101,885

(出所: 中国金融年鑑など)

- Aversion of credit risks of market participants
信用リスクを警戒
- **Small size of money market** 市場規模が小さい
- There is no “market interest rate” like Libor. 指標金利がない

(3) Foreign exchange market 外国為替市場

Unit:US\$100 mio	94	95	96	97	98	99	2000	01	02	03
Annual forex turnover	408	720	628	697	520	315	422	750	972	1,511

(出所: 柯隆 「中国のWTO加盟と外国為替の自由化」, 『国際金融』 1085号)

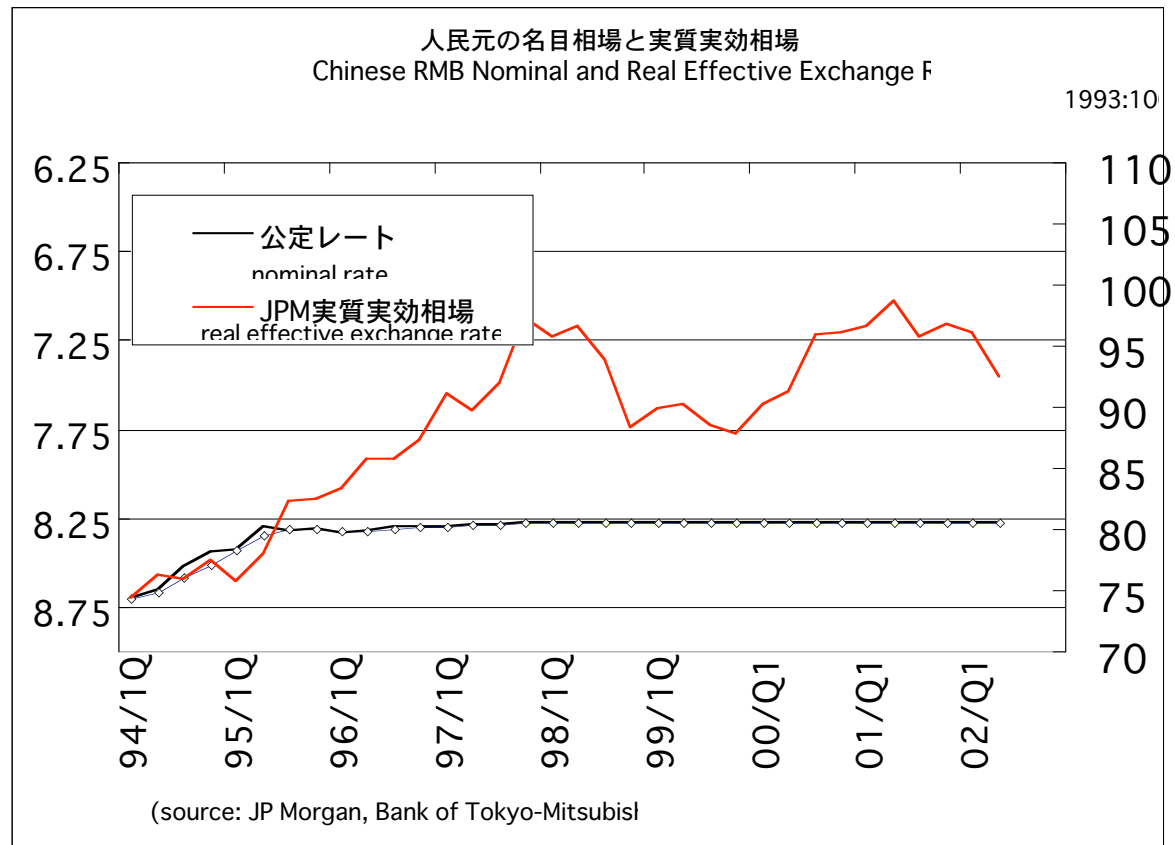
- **Small, stagnant and inactive market** 小規模かつ低迷
- Only spot transactions (no forwards or derivatives for risk hedging) 直物為替に限定 (先物為替なし)
- Background of underdevelopment 市場未発達の背景
 - (a) rigid market mechanism (no direct dealing among participating banks)
 - (b) PBC (People's Bank of China) supervision
 - (c) strict capital account control
 - (d) poor function of short-term money market

(4) Monetary policy of the People's Bank of China 中国人民銀行の金融政策

- From direct control (the regulation of total loan volume) to indirect financial control, but still half way under current full regulation of loan/deposit interest rates 直接規制から間接規制へ移行中
- Open market operations 公開市場政策: an important policy instrument to control money supply
- Official discount rate 公定歩合: only nominal
- Minimum reserve requirement 準備預金制度: the balance twice as much as legal requirement (flight to quality)
- Importance of “window-addressing” 窗口指導

4. Features of RMB exchange rate movement

為替相場の推移とその特徴



(1) Appreciation period of the RMB's exchange rate
(1994-1997) 人民元相場の上昇期

- Nominal rate: **US\$1=RMB8.70 (Dec.1993)→8.28 (1997)**
- **Favorable balance of payments** of twin surpluses **双子の黒字**
- **Favorable overseas economic environments** (US “New Economy,” high growth in East Asia) **海外市場拡大**
- **Expansion of export industries** thanks to FFE (foreign funded enterprises) **輸出産業の拡大**
- **China's high GDP growth rate** (1994: 12.6%, 95: 10.5%, 96: 9.6%, 97: 8.8%) **経済の高成長**

(2) De facto fixed exchange rate period
(1997-today)事実上の固定相場の時期

① *Unfavorable BP development* (1997-2000)

- Nominal rate: **US\$1=RMB8.28-8.27**
- Decline of capital account surplus, especially by **capital flight**資本逃避
- Negative impact of the **Asian crisis** on neighboring economies **アジア危機の影響**
- **Slow down of China's GDP growth rate** and its support by fiscal deficits (1998: 7.8%, 99: 7.1%, 00: 8.0%, 01: 7.3%)
経済成長鈍化
- **Priority on economic and social stability** due to three major reforms and the rise of unemployment rate **安定優先**

② *Strong growth of BP surplus* (2001-2003)

- **Return of high growth (GDP 02: 8.0%. 03: 9.1%)**

(3) Pros and cons of fixed and floating rate regime for China 固定相場と変動相場の長短

- **Fixed exchange rate regime**

Advantage: stability and predictability (China's trade dependency ratio 50 %) 相場の安定と予測性

Disadvantage: fixed rate level not necessarily an equilibrium, capital a/c restriction, 適切な水準とは限らない、資本取引規制

- **Managed floating exchange rate regime**

Advantage: smooth adjustment to BP trend, gradual capital a/c liberalization, promotion of economic competitiveness 国際収支動向を反映

Disadvantage: instability (volatility and misalignment), risk of sudden capital in-and outflow 不安定

(4) Pressure for RMB's revaluation 人民元切り上げ圧力

- Despite the official explanation of “managed floating exchange rate system, the rate of RMB has been “fixed” at US\$1=RMB8.28. 事実上の固定相場制
- The issue of RMB **revaluation** (人民元の切上げ) and a more flexible fluctuation band (変動幅の弾力化)
(nota bene: in 1997-99 the market rumored about RMB **devaluation** (切下げ) due to deteriorating balance of payments.)
- Chinese government is reluctant to RMB revaluation or widening of the fluctuation band in order to maintain the export drive that sustains GDP growth. → **Stability**

5. Future Prospects 今後の展望

(1) Alternatives of exchange rate regimes

為替相場制度の選択肢

- **Dilemma of stability versus change** 安定と改革のディレンマ
--Domestic factor (国内要因 rise of jobless rate) demands stability.
--External factor (対外要因 increase of export and FDI) demands exchange rate flexibility and revaluation of RMB.
- **When and how the RMB's fluctuation band will be made wider?** いつ、どのように変動幅を拡げるか
Prerequisites: a well-functioning forex market and offer of risk hedge instruments

(2) The outlook for RMB's full convertibility
目標は完全な交換性

- To realize the full convertibility of RMB, China needs to liberalize capital account transactions, but...
交換性実現には資本自由化が必要だが . . .
- Lesson from the Asian monetary crisis: Unprepared capital account liberalization could be disastrous.
- Necessary conditions 必要条件: (a) well-functioning macro-economic policy, (b) market economy with price mechanism and © strong financial system
- China will need time and efforts, but should keep endeavoring for full convertibility. なお時間を要す。