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The Chinese Renminbi

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Last week two important events took place.

They focused on the efforts towards internationalisation of the Chinese currency, Renminbi (RMB). The objective is to make it more acceptable in trade and investment transactions, without going through the US dollar conversion.

One was the announcement on Feb 22 that Bank of England (BOE) and People's Bank of China (PBOC) would soon sign an agreement to swap two currencies, British pound and RMB. The swap will enable providing RMB liquidity to commercial banks in UK for helping their customers to settle trade payments in RMB rather than in US dollars.

The other was the launching of ANZ Fiji RMB currency trading by Governor Barry Whiteside of Reserve Bank of Fiji on Feb 25.

Since RMB is not convertible, British exporters do not hold large amounts in their accounts with banks. They are not sure how to hedge their transactions. As RMB is not under a floating exchange rate regime unlike other major currencies, there is no attraction to hold RMB. If a currency is floating and inherently strong, it tends to rise in value in terms of others. Expectations of rise in RMB would be an incentive to hold on to RMB.

China does not want to take risks now. If RMB is floated and if China were to remove all controls on capital movements, inflows and outflows like America or Australia, foreigners will rush in to invest in China. That will push RMB up. A rise in RMB will hurt China's export oriented growth strategy.

China wants to embrace liberalisation only on its own terms and at its own pace.

The latest swap decision by BOE to provide RMB liquidity to banks, when importers' demand for RMB rises, will eliminate conversion costs.

Fiji's Trade with China

ANZ Fiji will help its customers to trade in RMB. Customers can buy RMB at the fixed official rate; if and when the offshore rate, which is floating, is favourable, they are free to buy RMB at that rate. The only time it happened was during the week of 9/11 terror attack in 2001, when the US dollar plunged and RMB rose.

China runs annual trade surplus with almost all nations. It is now the largest trading nation, with America being the second. It is the second largest economy, next only to America, having dislodged Japan.

China has trade surplus of US$ 200 million with Fiji. Fiji imported (US$ 225 million worth of Chinese goods) more than it exported (US$25 million of Fiji products).

China has invested most of its international reserves (US$ 3.3 trillion) in low yielding US securities. Depreciating dollar since 2009 is causing worries. Pulling funds out from the US would only result in further fall in value of US dollar.

China looks for new avenues for investment: better than investing in uncertain economies.

It also wants to "re-balance" domestically. One goal is to increase domestic consumption from a low 30 percent of GDP to a high level of 70 percent as in advanced countries. With growing industrialisation of rural areas, farm lands are decreasing. China has been successfully implementing its strategy to buy agriculture lands overseas for producing for home population.

This outsourcing will achieve twin objectives: quality overseas investment outlet for its soaring surpluses and domestic re-balancing.

Recently, China's state enterprises are on a farm land-purchase spree in Western Australia. Heilongjiang Feng Agricultural bought some 30,000 hectares as a first step in its plan to buy/lease more than 100,000 hectares in Australia to grow grain for export to China. In late 2012, Chinese private investors bought an Australian olive oil company.

"One country, two systems"

Outside China, free market economy prevails with no capital controls. Further there is no restriction on buying land in resource rich economies. Such favourable conditions are promoting China's objectives. Investment in land resources are better investments than investing in US Treasuries!

Economic growth of China is based on the concept propagated by Deng Xiaoping :

yì guó liǎng zhì : One country, two systems

Deng wanted two systems: Capitalist systems for Hong Kong, Macau and Taiwan; and Communist system for mainland China.

The policy continues: Politics is national with one party state; and economics is global with unlimited access to the goodies of free trade and investment.

At the recent World Economic Forum in Davos, former Prime Minister Kevin Rudd of Australia said China has been benefitted from an international rules-based order and so the international community "would like to know soon if China would like to make changes to the rules,"

We have to wait: until 2015?

That is the year presently indicated for China's floating exchange rate and removal of controls on capital movements in and out of the country.