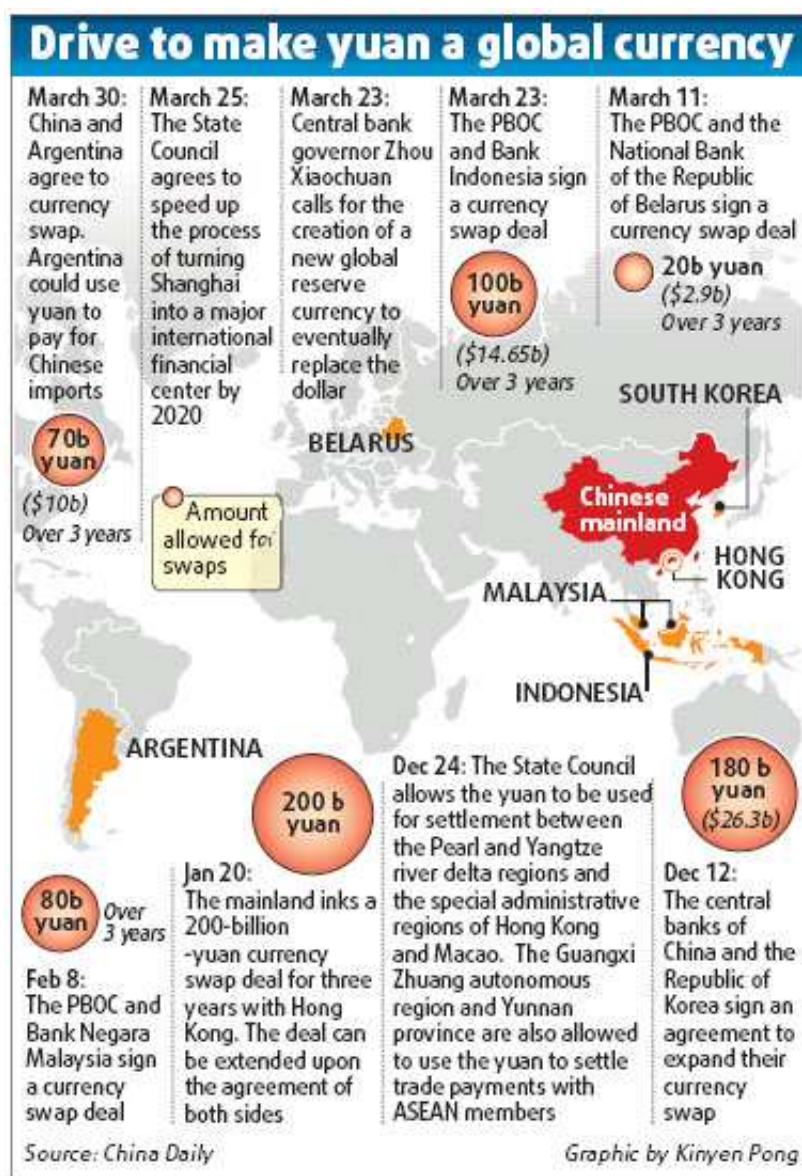


## Yuan trade settlement gets the nod



Five major trading cities have got the nod from the central government to use the yuan in overseas trade settlement - seen as one more step in China's recent moves to expand the use of its currency globally.

Shanghai and four cities in the Pearl River Delta - Guangzhou, Shenzhen, Dongguan and Zhuhai - have been designated for the purpose, said a State Council meeting chaired by Premier Wen Jiabao yesterday. The Pearl River Delta boasts the country's largest cluster of export-oriented manufacturing operations.

The move is aimed at reducing the risk from exchange rate fluctuations and giving impetus to declining overseas trade, according to a statement posted on the government website.

Analysts said the experimental use of the yuan in trade settlement also reflects policymakers' rising concern over the shaky prospects of the US currency, of which China has large reserves from previous trade growth, and their willingness to gradually expand the yuan's use globally.

"The trial is the latest move toward making the yuan an international currency," Huang Weiping, professor of economics at Renmin University of China, said. "The prospect of a weaker US dollar is making the transition more imperative for China."

The mainland is trying to promote the use of the yuan among trade partners and, in the past four months, has signed 650 billion yuan (\$95 billion) worth of swap agreements with Argentina, Indonesia, South Korea, Malaysia, Belarus and the Hong Kong Special Administrative Region. The agreements allow them to use their yuan reserves to directly trade with the Chinese mainland within a set limit in volume.

Stephen Green, head of China Research of Standard Chartered Bank, said the swap deals would help encourage the use of the yuan as the currency of choice for international trade.

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"In the longer term, if countries around the region and beyond start pricing their trade in yuan, this will also lead to increased internationalization and status for China's currency," Green said.

China now uses the US dollar to settle most of its international trade but the drastic swings in the greenback have become a risk for Chinese exporters in recent years.

Dong Xian'an, economist with China Southwest Securities, said: "For many exporters, the dollar's fluctuation is a serious concern. The ability to settle trade in the yuan would reduce such risk," he said.

Chen Xianbin, chairman of Guangxi Sanhuan Enterprise Group, told China Daily that his company lost more than 150 million yuan in the past three years from international trade due to the exchange rate changes between the yuan and the greenback. Chen's company, a ceramic tableware exporter, relies on Southeast Asian markets for 15 percent of total sales.

China's foreign trade has been on a continuous decline amid the current global financial crisis. Exports plunged 25.7 percent year on year in February, one of the sharpest falls ever, while imports dived 24.1 percent.

Analysts said the US Federal Reserve's decision to buy long-term Treasuries, which means printing new money, may also lead to a depreciation of the US dollar. That is also one reason for China to reduce the use of the dollar in trade so that the value of its US1.95 trillion foreign exchange reserves does not depreciate.

Zhou Xiaochuan, the central bank governor, said last month that in the long run, it may be ideal to replace the dollar with a new international reserve currency under the mechanism of the International Monetary Fund.

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