Economy

RMB reform to benefit all sides: Experts

By Ding Qingfen and Li Xing (China Daily)
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Toronto - China's foreign exchange regime reform is not only in the interest of its own economy but also can alleviate global trade and economic imbalances, foreign economists and think tank researchers have said.

But they also suggested the developed nations that have blamed China for contributing to the imbalances should not bet too much on the country's exchange reform and the large-scale appreciation of the yuan. They should instead seek other ways to address global concerns.

Last weekend, China's Central Bank issued a statement announcing it had decided to proceed with reform of the exchange rate regime and to enhance the exchange rate flexibility, ending a fixed peg of 6.83 yuan per dollar adopted in 2008.

The move was welcomed by Thomas A. Bernes, executive director and vice-president of Canada-based think tank The Centre for International Governance Innovation.

"It's really welcome, because it shows there was serious commitment (from China) to move forward. And I think it's an important step by China, and it can also help others to make moves jointly," he said.

"It's in China's own domestic interest as well as the interest of the multilateral system, and it works to make the adjustments", despite "the huge internal debates by exporters".

China has been criticized, especially by developed countries and overspending nations, as a major source of global imbalances. The country's purchasing power will become stronger as it allows the yuan to rise. This is expected to enable China to consume and import more, narrowing the surplus with trade partners.

"The basic argument is that greater flexibility will be a step toward global rebalancing, and it will also reduce the risk of trade tensions between the United States and China. As such, it is welcome news," a report by Nomura Securities International said.

China's move comes a few days before the G20 Summit opens this weekend in Toronto. The meeting is expected to help alleviate potential pressures from many sides. China's Ministry of Foreign Affairs said it is inappropriate for China's foreign exchange rate to be discussed during the summit.

Rachel Ziemba, senior economist at London-based Roubini Global Economics, said China has its own domestic imbalances that are problematic and limit its growth. The country should gain control over the domestic economy by moving toward a more independent monetary policy and away from the dollar peg, she believed.

But the US has continued to demand more since the announcement. President Barack Obama's top economic advisers called on China to ensure "vigorous implementation" of a more flexible currency on Wednesday.

Many economists don't agree with the argument.

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"I don't think anyone should be blamed," Bernes said.

The challenge for the world and the G20 is "to identify what is a cooperative framework in which we can work - that is the bottom line", Bernes said.

In addition, the "biggest pieces of the puzzle are clear, in the sense that the US could sustain growth by showing it

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the sense that the US could sustain growth by showing it has a credible medium plan and seeing its deficits decrease, and that Europe could promote sufficient growth", Bernes said.

Vice-president of China Institute of Contemporary International Relations Wang Zaibang agreed. Although "the appreciation would strengthen China's purchasing power, appreciation by large margins will have negative impacts on both China and the outside", Wang said.

Many American economists pointed out that the US is not good at exporting, which remains a big - perhaps the biggest - obstacle to its goal of doubling exports by 2014.