

# CHINESE FOREIGN EXCHANGE POLICY

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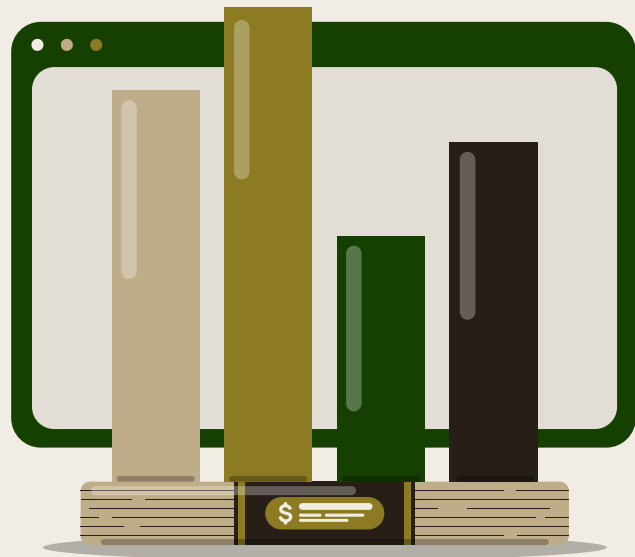
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**03** FUTURE AND  
FOREIGN POLICY

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01

# History

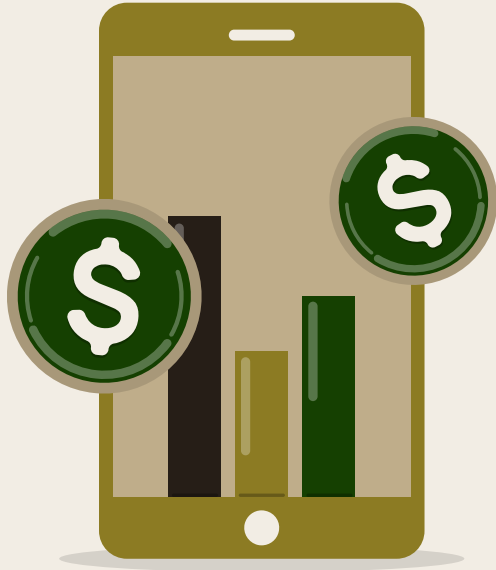


# Establishment of CNY: 1949-1978

- Planned economy model under the leadership of the Communist Party
- 1949: Establishment of Chinese Yuan (CNY), also known as “the people’s currency” (RMB), as the “only legal currency”.
- CNY was not freely convertible & strict controls on foreign exchange transactions.
- Foreign exchange policy aligned with socialist principles.



# Reforms and Opening-up: 1978-1993

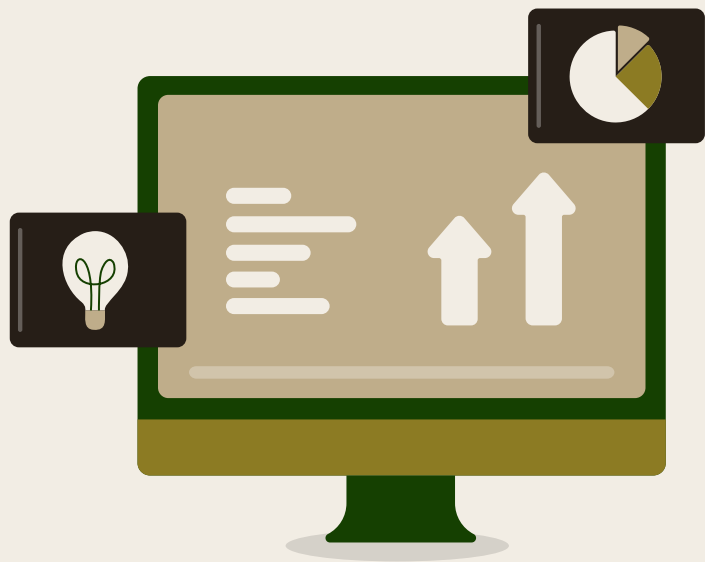


- 1978: Under the leadership of Deng Xiaoping, China initiated economic reforms and “opening-up” to the international market
- Special Economic Zones (SEZs) established to attract foreign investment
- Steps liberalizing trade and foreign exchange policies
- “Dual-track” system: coexistence of planned and market-oriented economic mechanisms

# Stability & Development: 1994-2013



- 1993: Pegged CNY to the USD at a fixed rate
- 1994: Unification of CNY exchange rate
- 2005: China moved to a managed floating exchange rate → break the peg
- 2005: The People's Bank of China(PBOC): CNY will be pegged to a basket of currencies rather than just the U.S. dollar + market supply & demand
- 2005-2013: CNY appreciated gradually against USD



02  

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2015-  
PRESENT

# Story of Growth

## Currency Devaluation

Boost exports in midst  
of sluggish growth and  
tariff wars

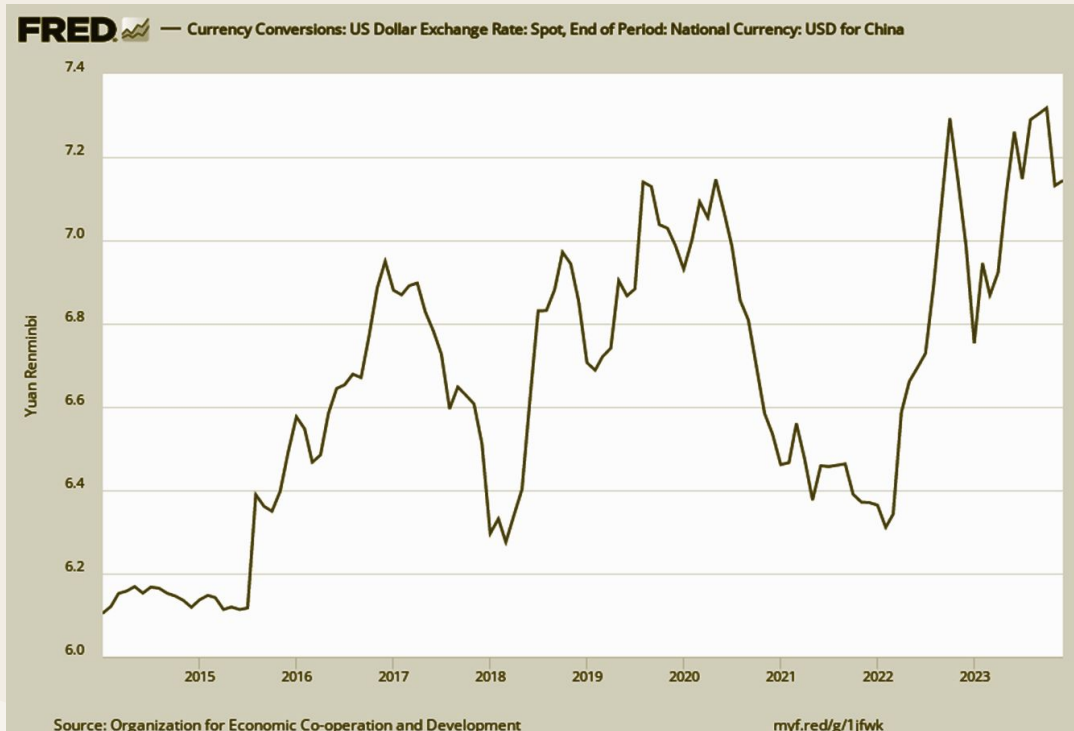
## International Adoption

Included in IMF's basket  
of reserve funds, but  
strict controls & low  
liquidity remain issues

## Transition to Consumer Economy

Export competitiveness  
comes at cost of  
general consumers





**-3%**  
vs. 33%  
appreciation  
since 2005

# International Adoption

## IMF adds yuan to SDR

Joins USD, euro, yen, and pound in the basket of reserves for all members

## Russo-Ukraine

Mitigating sanctions exposure in preparation to form own bloc

## BRICS Currency

Struggles with dedollarization despite rising yuan growth

TABLE 1. USE OF RENMINBI REMAINS LIMITED COMPARED TO OTHER MAJOR GLOBAL AND REGIONAL CURRENCIES

	Share of SWIFT transaction messages (percentages based on value)			Share of allocated global central bank foreign exchange reserves		
	August 2016	August 2023	Percentage point change	Q4 2016*	Q2 2023*	Percentage point change
U.S. dollar	42.50%	48.03%	+5.53	65.36%	58.88%	-6.48
Euro	30.17%	23.22%	-6.95	19.14%	19.97%	+0.83
Japanese yen	3.37%	3.68%	+0.31	3.95%	5.40%	+1.45
Chinese renminbi	1.86%	3.47%	+1.61	1.08%	2.45%	+1.37

# 2023: Party = Bank = Country

Fragile economics data led to the biggest dip in yuan vs. USD since the 2008 crisis

- Lower dollar deposit rates to shore up
- Command banks to sell dollars on/offshore
- Soak up liquidity to prevent short-selling

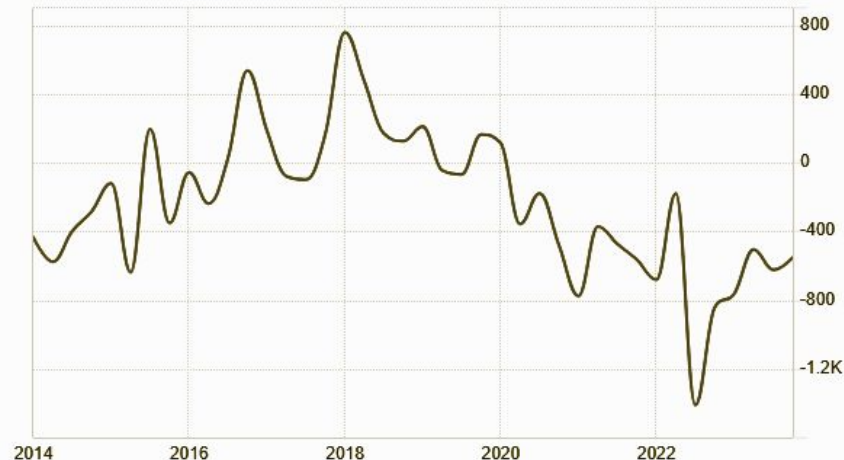


# WEAK YUAN HURTS CONSUMERS

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- Wealthy individuals took capital out during devaluation
- Sputtering domestic economy with high savings
- No true market forces finding equilibrium

CN Capital Flows - USD Hundred Million



Source: tradingeconomics.com | State Administration of Foreign Exchange, China






03

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# FUTURE AND FOREIGN POLICY

# Major Points



**Globalization of Yuan (and challenges)**



**Value of the Renminbi**

# RMB INTERNATIONALIZATION

## China's small steps on offshore use of yuan are starting to add up

By Tom Westbrook

April 27, 2023 12:41 PM EDT · Updated a year ago



[1/2] An employee counts yuan banknotes at a branch of Industrial and Commercial Bank of China (ICBC) in Shanghai.

## Argentina to pay for Chinese imports in yuan rather than dollars

By Reuters

April 26, 2023 8:38 PM EDT · Updated a year ago



Chinese Yuan and U.S. dollar banknotes are seen in this illustration taken March 10, 2023. REUTERS/Chado Rosta/illustration/File Photo  
[Purchase License](#) [Rights](#) [1]

## China-Saudi RMB Settlement Will Insulate the Oil Trade From U.S. Sanctions



Lintao Zhang via Getty Images

## What is a BRICS currency and is the U.S. dollar in trouble?

By Rachel Savage

August 24, 2023 6:02 AM EDT · Updated 7 months ago



Delegates walk past the logo of the BRICS summit during the 2023 BRICS Summit at the Sandton Convention Centre in Johannesburg, South Africa on August 23, 2023. GANALLOY/GUEROLA/Photo via REUTERS/File Photo [Download License](#) [Rights](#) [2]

## China's yuan ousts dollar to become most traded currency in Moscow in 2023

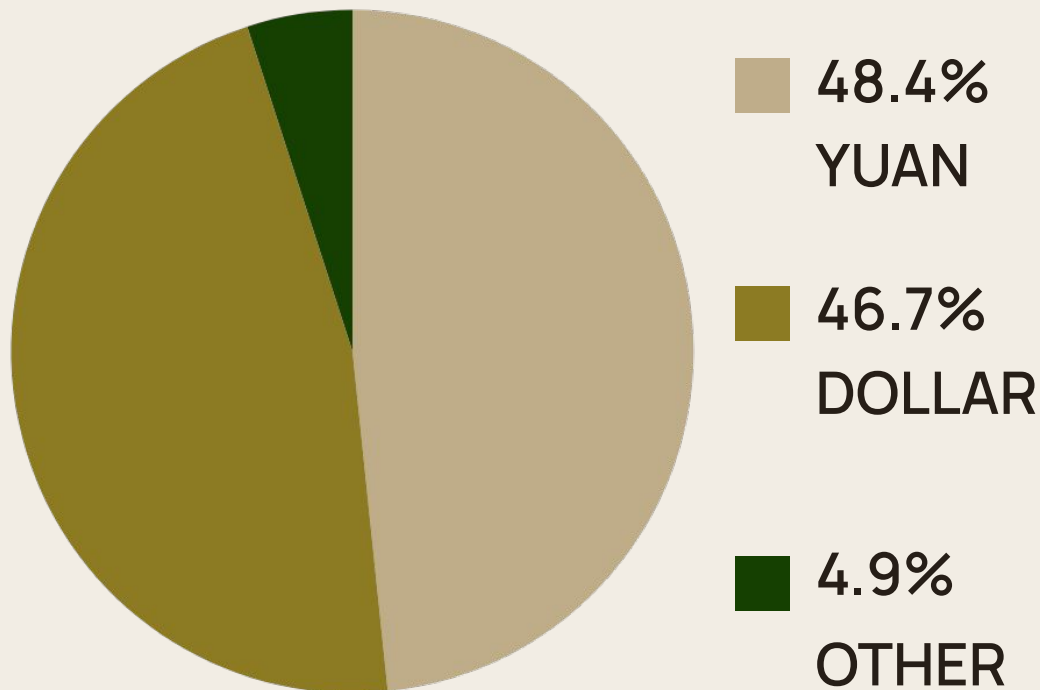
By Elena Fabrichnaya and Alexander Marrow

January 16, 2024 10:17 AM EST · Updated 2 months ago



Chinese 100 yuan banknotes are seen in this picture illustration taken in Beijing July 11, 2013. REUTERS/Jason Lee/File Photo  
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# Globalization of Yuan



March 2023



# Mechanisms



Free and smoother  
cross-border capital  
flows

1



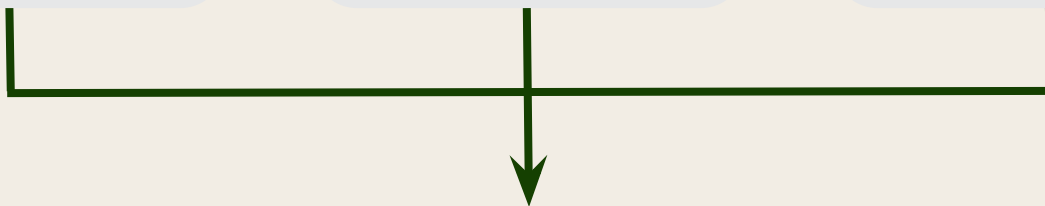
Foreign use programs with  
countries such as e-CNY  
program in Singapore

2



Prudent and moderate  
monetary policy to create  
confidence in CNY

3



Internationalization of the Yuan

1: [http://english.www.gov.cn/news/202309/23/content\\_WS650e4ef4c6d0868f4e8dfb0a.html](http://english.www.gov.cn/news/202309/23/content_WS650e4ef4c6d0868f4e8dfb0a.html)

2: [http://english.www.gov.cn/news/202312/09/content\\_WS6573d528c5d0868f4e8e2047.html](http://english.www.gov.cn/news/202312/09/content_WS6573d528c5d0868f4e8e2047.html)

3: [http://english.www.gov.cn/news/202401/06/content\\_WS659894acc8d0868f4e8e2d00.html](http://english.www.gov.cn/news/202401/06/content_WS659894acc8d0868f4e8e2d00.html)

# Some Opening Up Measures



## Measures outlined in FTZ Opening-Up Measures\* published by State Council

- All investment-related inward and outward remittances made by foreign investors will be allowed to flow freely as long as they are deemed above-board and compliant (Shanghai Pilot Free Trade Zone)
  - Capital contributions, profits, dividends, interest payouts, capital gains, total or partial proceeds from the sale of investments and payments made under contract
- Similar support from Beijing Municipal Commerce Bureau
- Streamlined approval processes for financial services
- Cross-border access to overseas financial services
- Other measures to make foreign investment more attractive

# Value of the Yuan (Competing Pressures)

Weaker currency will lead to hostile response from trading partners → Less foreign willingness to use CNY

'Strong currency' is an essential ingredient for China to become a financial power.  
-Pres. Xi Jinping<sup>2</sup>

Loss of confidence in CNY, ex: 2015-16



Increased price of imported goods can counteract deflationary psychology

"Greater exchange rate flexibility would help counter disinflation pressures."  
-IMF<sup>1</sup>

Simple to engineer: PBOC cut CNY yields and widen the interest rate gap between US and China

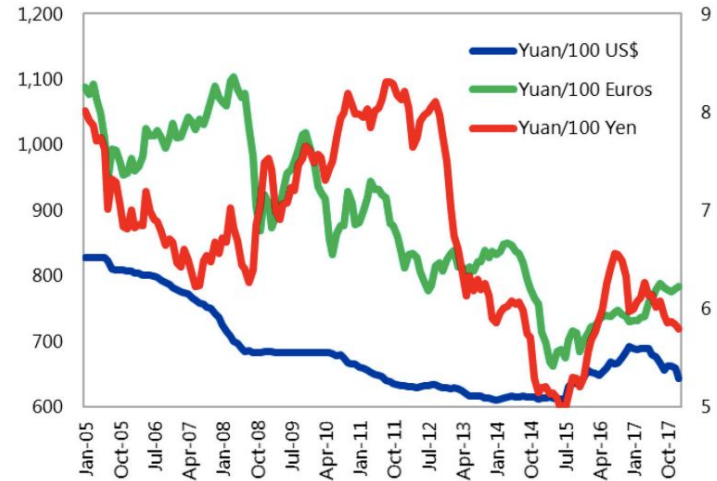
<sup>1</sup><https://www.imf.org/en/Publications/CB/Issues/2024/02/01/People-s-Republic-of-China-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-544379>

<sup>2</sup> <https://www.chathamhouse.org/2024/02/chinas-renminbi-trap-economy-needs-weaker-currency-but-unable-to>

# UNDervaluation OF CURRENCY

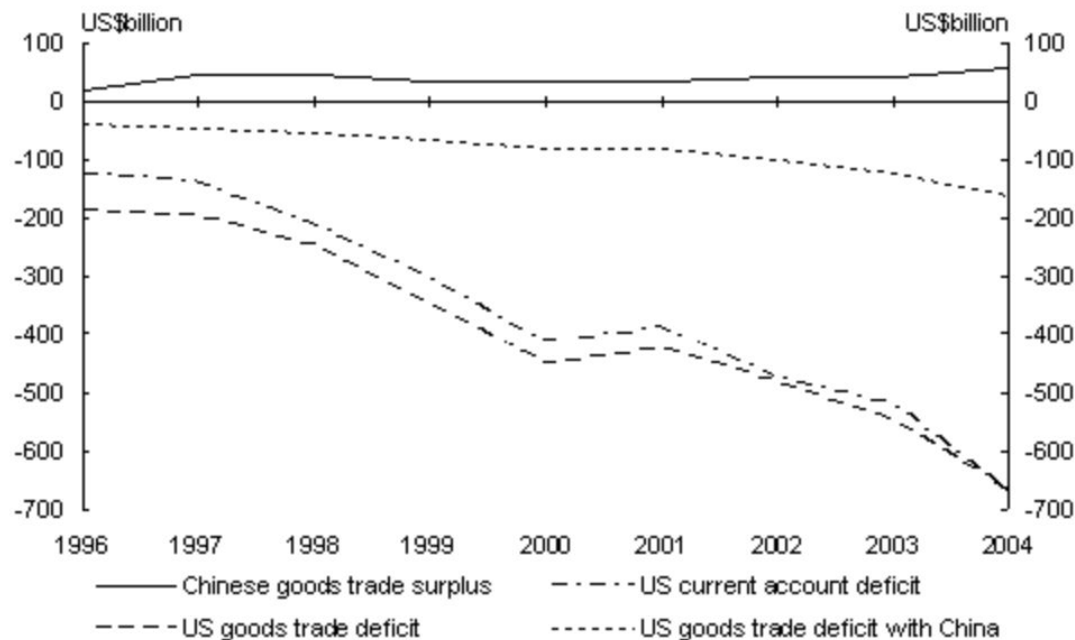
1. China has been pegging its currency since 1997 to 2005 to the US dollar and that keeps the value of the currency low as compared to other currencies
2. This effect subsequently implies that Chinese exports are relatively cheaper and considered more attractive than that of other nations
3. However, this also has significant drawbacks such as loss of purchasing power over imports, exposure to currency losses and reduced monetary policy autonomy
4. Large trade surplus may also lead to higher inflation with an aging population

China Spot Exchange Rates



Source: Haver Analytics.

**Chart 10: China's trade surplus and the US trade deficit**

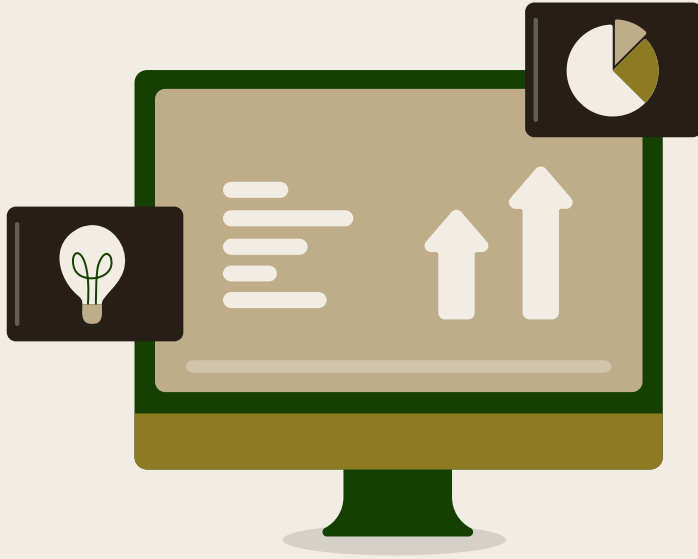


Source: CEIC, US Bureau of Economic Analysis.



# KEY TAKEAWAYS

1. China eventually wants to standardize the Yuan and make it a global reserve currency
2. China's diplomatic blocs through the BRICS and growing ties with the Middle East are strong indicators for the Yuan Standardization Plan
3. China's Undervaluation of Currency has been affecting the growth of developing countries like India where their goods are being competed on a local level
4. The population of China, at large, is discouraged from importing goods whereby promoting locally sourced products



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QUESTIONS?