The Economics and Politics of Regional Rebalancing – An RMB Perspective

8th June 2012 . 21st Century China Program. UC San Diego

Section I
RMB Regionalization in Asia, A Process Driven by Market Forces

RMB Regionalization in Asia is Driven by Market Forces

The Regional Dynamics

- Starting with border trade, increasing China demand for Asia products and services drives RMB regionalization.
- Asian infrastructure needs total more than 140 billion USD for 2010-2020.
- A few Asian countries/central banks initiated dialogue on including RMB as part of their reserve management.
- In 2010, China direct outward investment reached 69 billion USD.

China Response

- Only after the 2007 subprime crisis has China started to put in place more facilitative mechanisms in order to mitigate trade risks.

Source 1: CEIC Database

The Border Trade – A Humble Start

Network Centrality Index of Asia Trade by Country

(1 = Most Central in the International Trade Network)

Source: DOTS, IFS and IMF

2012 Estimated Percentage of Border Trade Settled in RMB

- China-India 90%
- China-South Korea 90%
- China-Mongolia 90%
- China-Russia 15%

Source: Press Cotton, Morgan Foundation

The Service Trade I - The Hunger for Asian Travel

2011 China Outbound Tourists

2011 China Outbound Travel Volume and Growth

<table>
<thead>
<tr>
<th>Country</th>
<th>Outbound Tourism (000)</th>
<th>YoY Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>902</td>
<td>207.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1470</td>
<td>81.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>1300</td>
<td>78.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>502</td>
<td>21.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>478</td>
<td>20.1</td>
</tr>
<tr>
<td>Philippines</td>
<td>222</td>
<td>18.5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>951</td>
<td>-6.4</td>
</tr>
</tbody>
</table>

Source: China National Tourism Administration

The Service Trade II - The Hunger for Asian Education

Ratio of Chinese Students to Total International Students in Asian Countries/Regions

Ratio of Chinese Students to Total International Students in Asian Countries, US and UK

Source: UNESCO
Section II
RMB Regionalization, Under the Joint Framework of Domestic Capital Market Reform and CMI

ASEAN+3 Finance Ministers & Central Bank Governors’ Meeting

Strengthening the ASEAN+3 Finance Ministers & Central Bank Governors’ Meeting (AFM+CGB)

- To introduce one simplified crisis resolution framework
- To allow Executive Level Decision-Making Body in Chiang Mai to decide on the first qualification criteria on auto qualifications and co-post conditionally after considering the economic impacts by the requesting country and analyses by AMRO/ADB/IMF as the basis for the decision

Adapting (AFM+CGB) “New Roadmap”

- Developing infrastructure-financing schemes
- Forming an investment-friendly environment for institutional investors
- Enhancing the co-financing of the IMF
- Further developing the government bond market
- Enhancing financial access to consumers and SMEs
- Strengthening the foundation for a regional sovereign rating

Strengthening the Crisis Resolution Mechanism (CRM)

- To double the total size of CMIM from the current US$120bn to US$240bn while keeping the current share of financial contributions and voting power among the member countries the same
- To increase the IMF’s disbursement portion to 50% in 2012 with a view to increasing it to 60% in 2014 subject to closure should conditions warrant

Outward Investment Capital Inflow and Outflow

- Notification on company registration issues for equity investment firms; 2011, Shanghai
- Proposed regulation for equity investment funds and equity investment fund management companies’ registration; 2008, Tianjin
- Regulations on promoting equity investment fund development; 2011, Shanghai
- Measures on promoting the development of equity investment fund industry, Beijing

Outward Investment Approval and Registration

- Regulation on Outward Investment, 2009, Ministry of Commerce
- Regulation on RMB-settled foreign direct investment pilot projects, 2011, PBoC
- RMB funds outflow regulation
- RMB funds inflow regulation

Section III
Disconnection in the Twin Rebalancing

RMB Internationalization and Progress on CMI

- Viable RMB internationalization and progress on CMI
- ASEAN+3 Joint Statement on East Asia Cooperation and Enhancement of ERPD into the CMI framework
- Adoption of the collective decision-making procedure for CMI swap activation
- Agreement on CMIM total size and on proportion of contribution from ASEAN+3 countries
- Agreement on all the main components of CMIM

ASEAN Financial Crisis

- Chiang Mai Initiative
- Agreement in principle on a self-managed reserve pooling arrangement
- Agreement on an increase in the total size of CMIM from US$80 billion to US$120 billion
- CMIM officially launched

1997
2012.5
2000.5
2005.5
2005.5
2006.5
2007.5
2008.5
2010.3
2009.5
2009.2
2000.9
2000.5
2000.5

Some Thoughts on the Opportunities and Challenges of The Ongoing Economic and Political Balancing Act in Asia

- Source: UNCTAD and CIA
Thank You!

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