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China Eyes Ways to Broaden Yuan's Use

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By IAN TALLEY

WASHINGTON—China aims to turn a trickle of cross-border trade that is settled in yuan into a stream, with Latin America and the Middle East as the next possible focal points, Hong Kong's U.S. envoy said.

Donald Tong, Hong Kong's U.S.-based commissioner for economic and trade affairs, said officials are quietly working on developing new yuan financial centers.

"My colleagues in Hong Kong have been working very closely with Beijing whereby we could enhance the use of renminbi," Mr. Tong said in an interview, using another word for the Chinese currency.

In addition to fresh engagement with trading firms in Latin America and the Middle East, China is talking with companies in the U.K. and Australia to broaden the currency's use beyond Hong Kong and Singapore, he said, without giving a timeline.

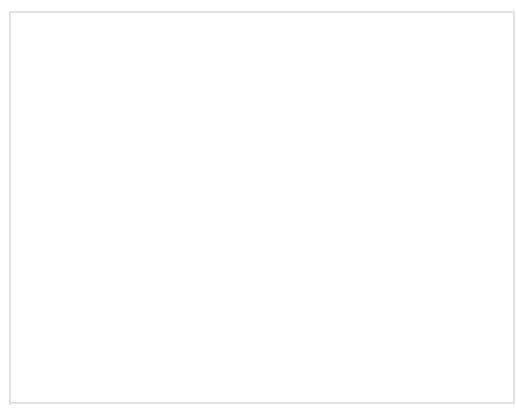
China's strategy for broader use of the yuan in international commerce is part of a push to have the yuan considered a reserve currency and alternative to other major currencies, including the U.S. dollar. Economists say that yuan internationalization encourages reforms to China's domestic economy and deepens its financial industry. If the yuan were to become a reserve currency, it would not only reflect that the country's economy has matured, but also provide more balance to the international monetary system by providing an alternative to the U.S. dollar, yen and euro.

But even the most optimistic economists say that the yuan becoming a reserve currency is a difficult process that would likely take years, if not a decade or so.

China's central government makes political decisions on the yuan, but Hong Kong acts as an administrator for the country's currency policy and works with governments and private firms to foster yuan use internationally. A spokesman at the Chinese embassy wasn't immediately able to comment.

The internationalization drive began in 2009, and yuan trade settlement has exploded in the past year. Some market analysts expecting it to run between \$350 billion and \$450 billion in 2012, Mr. Tong said. That compares with yuan settlements of about \$300 billion last year and only around \$300 million in 2010.

So far, most of the trade settlement has been very one-sided, with exporters to China happy to take payment in a currency that was on a slow appreciation trend. Beijing has




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made clear, however, that investors can no longer count on the yuan's value rising. That may curb some incentive for foreign companies to settle in yuan but will likely allow more Chinese exporters to get paid in yuan.

One political challenge is that larger demand for yuan will put more upward pressure on the currency, eroding an export advantage for Chinese manufacturers. Growth in China is also slowing, which will likely translate into lower trade-growth figures.

Eswar Prasad, a Cornell University economist and consultant for the Chinese government on economic issues, said China has expanded its push into new global financial centers this year. "Almost certainly, they are going to broaden this to every region of the world where they have a significant trade presence," he said.

Take Latin America, whose trade tab with China is worth roughly \$230 billion. Othman Gamero, Citigroup Inc.'s C -2.97% trade-services head for the region, said the lender is in conversations with several large Chinese companies about yuan trade settlement there.

Only a fraction of Latin America's trade with China is settled in yuan because it is more attractive for most Latin American companies to settle in dollars.

But Mr. Gamero said that while yuan settlement hasn't yet taken off, the currency shows strong promise, particularly as China fuels demand by giving Chinese exporters incentives to boost the use of the yuan. "Even with its impressive growth, the yuan it still largely below its potential as a global currency," he said.

Although Hong Kong's share of yuan transactions as a percentage of global activity could fall as new yuan financial centers develop, the city will be able to act as a clearing house for global yuan transactions since its central bank has a special swap line with the People's Bank of China, Mr. Tong said.

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