Yuan As New Global Currency?

The fact that World Bank President Robert Zoellick has said that China's yuan may become the global reserve currency over the next 15 years assumes significance not just for the world but also for India. It has the potential to make Indian goods relatively more competitive as the Chinese currency today is highly controlled.

This is not the first time Zoellick has spoken of such a possibility and the buzz about China trying to position the yuan as a reserve currency of the future has been on for some time now. This is not a situation that will occur in the short or medium term, but surely a prospect over the time frame that Zoellick is talking about.

With bilateral trade between the two Asian giants estimated at around $41 billion in 2008-09, China has now become India's largest trading partner. The trade, however, continues to be lopsided. Exports from India are valued at about $9.7 billion while imports are as high as $31.33 billion.

No wonder India's Ambassador to China S. Jaishankar recently made the point that it was strange Indian manufactured products were competitive globally but not within China. Clearly, there are growing concerns not only over the trade deficit but also over the fact that most of India's exports to China are commodities while imports are mainly manufactured goods.

Making the yuan an alternative reserve currency would certainly make life much simpler for countries like India, which have growing trade relations with China. It would be easier to make purchases directly in the Chinese currency than operating through the dollar.

The fact that Chinese goods are more competitive than the rest of the world is also being attributed partially — though not wholly — to the fact that the yuan has not been allowed to float freely against other currencies, primarily the dollar. In case a free float was allowed, it would be bound to appreciate and this would naturally make its products less expensive.

At the same time, the overall cost of production of Chinese-manufactured goods is also much lower than in many other countries mainly due to low wages of workers along with the economies of scale achieved by setting up large capacity units.

One of the main reasons for the expected appreciation of the yuan is the mountain of China's foreign exchange reserves currently estimated around $2.3 trillion. It has the largest reserves in the world. India is at the fifth place but far below the Chinese level with nearly $300 billion.

The rumblings about the yuan being considered a reserve currency began early this year when China suggested that SDRs (special drawing rights) of the International Monetary Fund should be given a chance as the new reserve currency. It was felt this could pave the way for making yuan as a major backing currency for the SDRs. Currently, the yuan is not in the basket of currencies for the SDRs but is expected to be included in the next review in 2010.

In addition, since December 2008 China has undertaken currency swaps estimated at $95 billion with central banks in South Korea, Malaysia, Belarus, Indonesia, Argentina and Hong Kong. This would enable importers to make payments in yuan for Chinese goods without going through the usual dollar route.

Though the yuan is now in the news, till only recently, the euro was viewed as the prime contender for becoming the next reserve currency of the world. In fact, Zoellick has in earlier comments noted that there could two alternative reserve currencies, the euro and the yuan.

The World Bank president has also sought to warn the US that unless it deals with issues like debt and budget deficit its dollar may no longer be the world's predominant currency. He has also suggested that the euro or the yuan need not replace the dollar but could become an alternative to it.

This is in line with the views of several countries like Russia, India and China that have been arguing that the old Bretton Woods formula, which placed the dollar at the centre of the global financial system, needs to be drastically altered to reflect the new world order. Besides, these countries feel the growing US debt is weakening the world's financial system. Hence the proposals for multiple reserve currencies rather than a sole pivotal currency.

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At the same time, it must be recognised that making the yuan as an alternative reserve currency is a long way away. The yuan or renminbi as it is also called has to be "internationalised" as Mr. Zoellick puts it. It has to be made free-floating as its movement against the dollar continues to be tightly controlled by Chinese authorities. In fact, the current yuan-dollar market is also quite illiquid in contrast to the rupee-dollar market.

In this backdrop, it is clear that the first step that China will have to take is to free the yuan from controls and let it find its own level. This is bound to harden the yuan against the dollar and thereby make Chinese goods more expensive. To what extent this would hurt China's competitiveness is yet to be seen. The US of course has been protesting the controls on the yuan especially since it has a huge trade deficit with China.

Other countries like India, South Korea, Japan, Taiwan and Thailand are also concerned about the fixed rate of the yuan. Their currencies have appreciated against the dollar but the yuan remains steady. The rupee, for example, has already appreciated by about six percent against the dollar over the last six months, creating difficulties for exporters who say their products will become uncompetitive.

In such a scenario, with China adamant on keeping controls on the yuan, it looks as if it may take a really long time for the currency either to internationalise or metamorphose into the one of the world's new reserve currencies.

Dubai World To Restructure $26-Bn Debt

Dubai: (IANS) State-run Dubai World, which stunned the global financial markets with a debt restructuring announcement last week, recently said only some subsidiaries were in financial trouble and that it would expedite the process to restructure the $26 billion owed by these entities.

"The proposed restructuring process will only relate to Dubai World and certain of its subsidiaries including Nakheel World and Limitless World," the conglomerate said in a statement.

"The total value of debt carried by the companies subject to the restructuring process amounts to approximately $26 billion, of which approximately $6 billion relates to Nakheel." Dubai World said the restructuring process would not affect subsidiaries such as Infinity World Holding, Istithmar World and Ports and Free Zone World (which includes DP World, Economic Zones World, P&O Ferries and Jebel Ali Free Zone), "all of which are on a stable financial footing".

Both Nakheel World and Limitless World are the real estate development arm of the group with the latter having projects around the globe. The global financial world went into a tizzy last week after Dubai World said it would need to restructure its debt, estimated at $59 billion.

The conglomerate, which has a host of companies under its fold, has interests in a wide range of businesses such as realty, infrastructure, logistics and economic zones, not just in the region but across a clutch of countries including India.

"It is envisaged the restructuring process will be carried out in an equitable way for the overall benefit of all stakeholders and will comprise several phases including long-term plans and commitment of stakeholders."

The restructuring process will also assess profits, cash generation and funding requirements apart from restructuring proposals to creditors, the group's statement said.

"Initial discussions have commenced with the banks of Dubai World and are proceeding on a constructive basis," it added.

Black Friday Shoppers Spend More In '09

Washington: (DPA) US shoppers were out in full force Saturday during the year's most important weekend for retailers after laying out an estimated $10.66 billion on Black Friday in stores.

The figure was up about 0.5 percent over Black Friday 2008, according to the Wall Street Journal. The information was compiled by ShopperTrak RCT Corporation which tracks sales at more than 50,000 stores. The increase was disappointing measured against expectations by retailers' chief marketing officers of an 1.8 percent boost over 2008 in their own stores, according to a survey conducted by BDO Seidman LLP in October and reported by Bloomberg financial news service.

But compared to 2008, when sales in November and December declined 5.8 percent from 2007, the increase was good news.

Online shopping was already up for some retailers over 2008, according to the California-based Coremetrics. It said that consumers were buying more items per order by 18.3 percent and spending 35 percent more per order, or $170.19. Apparel retailers benefited most from the online surge.

It's B-School Time For Indian Ambassadors

ISB

New Delhi: (IANS) Guess who is getting lessons from the premier Indian School of Business (ISB)? Indian ambassadors who are learning "economic diplomacy" to promote their country abroad.

With the country growing as a global power, the Ministry of External Affairs (MEA) has roped in the ISB to teach the top diplomats how to promote "brand India" in the countries where they are posted.

"We have already trained 30-35 ambassadors, high commissioners and other top officials under the Indian Foreign Service after being contacted by the external affairs ministry," Deepak Chandra, associate dean of the ISB, told IANS.

"We will train another batch of such top officials next month. This time also the number will be 30 or more. What they are learning in short is economic diplomacy," said Chandra, who was in Delhi on an official visit.

ISB, a premier management school based in Hyderabad, was contacted by the MEA earlier this year.

"India is a growing global power. The economic interest of the country is growing. What these officials are learning is contextualising Indian interest in their country of posting," Chandra said.

"By aligning the economic situation of their posted country with that of India's need, they can help the country's brand image," he said, adding that qualified and capable people are key to promoting brand India across the world. Chandra said among other things the envoys have been taught about India's future and its relationship with countries vis-a-vis economic growth. "Let me give one example, we have taught them India-China relations from this perspective."

"As educationists, we now understand that they (government) have recognised they need such kind of education. This is a great move forward."

The authorities said while the already completed course was for a duration of two weeks, the upcoming batch would study for around 10 days next month. However, they did not divulge the details of the course fee or the countries where these top officials are posted.

"These are part of our agreement with the government and details cannot be given," Chandra added.