

Opinion

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Purisima, Guinigundo speak out on China's renminbi



Butch del Castillo

OMERTA

First of two parts

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(The forum, attended by some 300 business and financial icons from the Asian region, was the first of its kind in the country. It was only last year when the Manila branch of Bank of China, headed by Deng Jun, formalized an agreement with the Philippine Dealing System Group for the establishment of a domestic RMB transfer service to allow the trading of the Chinese monetary unit in the domestic foreign-exchange market. A transfer service, now fully operational, has also enabled the trading of RMB-denominated securities in the local bond market. The only other Filipino resource speaker in the forum was Bangko Sentral ng Pilipinas Deputy Governor Diwa Guinigundo.)

In his speech, Purisima acknowledged the rapid "internationalization" of the RMB, which is now used in trade settlements in 122 countries, nearly five years ago, he said, trade settlements in renminbi was only less than 4 billion yuan. Last year,

it reached several trillion and is still growing at a very fast pace.

"In fact, it is [now] the second-largest settlement currency in the world, already surpassing the euro," he added.

Purisima also said: "So I think it is a smart move, and I thank the Bank of China for this initiative of sharing knowledge about denominating trade in RMB and making it easier for our businessmen to do so, because we've seen across the world the increasing amount of trade being denominated in renminbi. Our own trade with China is about 12 percent.... So if you want a perfect match, then maybe 12 percent should be denominated in renminbi.... The increasing importance [of the RMB] augurs well for the regional capital markets."

Purisima lamented that, under the present setup, "we have the bulk of the world's reserves, [and] we still send the bulk of those re-

serves outside the region. And then the money managers of the money-center countries determine whether we deserve our money back [or not]. I think it is important that we recycle those reserves within the region, so that... we can have a better influence and better chance of directing the investments of those reserves to areas where we need it."

Purisima said the world economy was in the midst of a gradual transition. Part of that transition is the shifting of much of the wealth and power from West to East. He cited China's phenomenal growth from 24 years ago, when its gross domestic product was worth only P360 billion, and now it is already \$9 trillion.

"In fact, there is a report that says that, from a PPP standpoint, China's economy is already the world's largest. Of course, China doesn't want to admit it yet.... So when you talk about China, there's this great shift of power, of wealth, of size to the East. When you talk of any measure in terms of the country that produces the most cars, it's no longer the West. It is, of course, the East, mainly China. So we are living in that age," Purisima said.

"Now, part of the increasing importance of China is the fact that the renminbi, as a currency, will continue to increase in importance. In fact, from the Department of Finance, we have been watching carefully the diminishing market. We haven't touched it yet. But we are watching. We are trying to learn more about it, because one of the things we are trying to accomplish is making sure that our liability mix reflects our trade mix. And as our RMB-denominated trade increases, then obviously it's important [that] we make the correspond-

ing adjustment," he added.

Purisima, however, admitted that the Philippines is still essentially a "US-centric country from the financial standpoint, from a debt denomination standpoint." Apparently, he was implying that lessening our heavy dependence on the American currency would not be a quick and easy process.

Purisima reminded China that, as rich and as powerful as it may have grown, it cannot sustain its phenomenal growth in isolation in the very same way that the US cannot exist on its own. He said:

"So...we have to look at relationships among countries as multidimensional.... The Ambassador [to the Philippines, Zhao Jianhua] earlier mentioned the fact that our [bilateral] trade, our tourism, our investment is growing. And I think that's what's important, that we look at the sum of the relationship and not the challenges that we have. Even the best of friends, best of friends in terms [of] countries, like Canada and Japan and the US, have border issues. Many countries that are neighbors tend to have issues. But that cannot be the be-all and end-all of relationships. And I think, in the case of China and the Philippines, despite the difficult issues that we face, we've seen the other dimensions of our relationship grow. And we thank, in fact, many of our entrepreneurs who are of Chinese descent in making sure that this continues to be a healthy one...."

To be concluded on Wednesday

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Guinigundo's take

RECOGNIZING the growing economic linkages of the Philippines with China and that the internationalization of the RMB, or renminbi, is "inevitable in the near future," the Bangko Sentral ng Pilipinas (BSP) has included the Chinese currency among the other foreign-exchange notes being weighted to determine the effective exchange rate of the Philippine peso. (As of Monday, the Chinese yuan was essentially stable at the exchange rate of P7.04 at the Philippine Dealing System [PDS] transfer service.)

The Bank for International Settlements confirmed in 2013 that the RMB was the ninth most traded currency in the world and "the most traded in Asia." It was only in recent years that the use of the Chinese currency for the settlement of cross-border trade and investment amounted to 4.6 trillion renminbi.

The RMB has also been used for official purposes. That is in swap arrangements between the People's Bank of China (PBOC) and other central banks in the Asian region and beyond. Other than the Chang Mai Initiative Multilateralization, China has committed a contribution of \$192 billion as financial support to the 10 Association of Southeast Asian Nations members, plus Japan, South Korea and, of course, Hong Kong. As of end-2013, the PBOC has RMB-denominated swap agreements with 23 central banks.

All of the above developments were revealed by BSP Deputy Governor Diwa Guinigundo at the Bank of China-sponsored forum on "RMB opportunities in the Philippine market" held at the Makati Shangri-La, Manila Hotel on June 24.

Guinigundo said the renminbi, "in fact, is now one of the 18 foreign currencies that are convertible with the BSP." He added that the aim was to encourage domestic banks to exchange the renminbi of clients directly to Philippine pesos to facilitate their financial transactions.

He also revealed that "a number of banks" have begun accepting RMB-denominated deposits, but did not name which banks.

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Bank of China in Manila has signed RMB business cooperative agreements with 14 large commercial banks "to establish partnerships in RMB cash foreign-exchange trading and cross-border trade settlements, among others."

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Philippine bond market," he said.

Guinigundo explained that, "in light of the increasing magnitude of transactions with China, it is imperative that there [are] safe and efficient payments and transfer services in place for the renminbi.

He also said: "However, before it can become an international currency, China may need to further liberalize its capital account. This strategy may lead to an open, deep and liquid financial market. Moreover, the internationalization of the renminbi has to reflect the natural outcome of the sustained improvement of economic and financial market fundamentals.... We realize that there is still a long way to go, particularly in the continuous reform of the Chinese financial sector."

On financial-sector reforms, Guinigundo cited the BSP's "very instructive" experience by "constantly encouraging our banks to strengthen their balance sheets... through big assets cleanup, capital buildup and industry consolidation," and other measures to ensure good corporate governance.

In effect, Guinigundo was saying that China may be a wide-awake giant that has emerged as the second-largest, if not actually the largest, economy in the world. But it would still be vulnerable to "the uncertainties in the global economy and the heightened interconnectedness of markets."

"The movements of capital flows to our economies are subject to the volatilities in global financial markets and changing risk appetites of our global investors.... A gradual and cautious approach is appropriately reflected in the famous phrase of Deng Xiaoping's 'crossing the river by feeling for stones.'"

Guinigundo concluded his address by saying the internationalization of the renminbi would benefit global financial markets, enhance trade and financial transactions, and, ultimately, promote greater economic growth in the Asian region, of which it is the biggest member.

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