

The yuan goes global essay sample

[Economics](#), [Currency](#)



“ The Yuan Goes Global”

1) How does the Chinese government limit the use of the Chinese currency, the RMB, on the global currency markets?

Through the settlement of trade transactions, Chinese government can limit the use of currency on global currency markets. In the past, US dollars was the denominator of Chinese exports that back in 2009 there were only 1% of the \$1. 2 trillion Chinese exports were denominated in RMB while in 2011 the percentage had risen to 7%. This shows the Chinese government is using this regulation to keep RMB onshore that other counties do not need to convert their currency to RMB to trade with China. And when Chinese exporters are paid with U. S dollar, they are not allowed to keep them in any bank account that they have to exchange all their foreign currencies for RMB at the official exchange rate set by PRC at Chinese central banks. All the hard-currency earnings go back to Chinese government that in the end of 2011 there has been a gross accumulation of foreign currency of \$3. 2 trillion.

2) What are the differences between the RMB, the CNY, the CNY, the CNH, and the CNY-NDF?

RMB is the official currency of China. CNY is the unit for the RMB used for any trading and banking. CNY and CNH are the different exchange rates for RMB. CNY exchange rate is set by Chinese central bank while CNH exchange rate varies when there is change of the amount of supply and demand. CNY-NDF is the nondeliverable forwards that have forward contracts based on CNY exchange rate, and will be settled in US dollars.

3) Why was the McDonald's bond issue so significant?

In 2010, McDonald's Corporation became the nonfinancial non-Chinese firm in the global market to issue bonds that are denominated in RMB. It was a significant contribution to the development of offshore RMB debt capital market in Hong Kong as well as the channels for international corporations to raise capital for their china-based companies. These foreign companies might be able to use RMB to fund themselves and carry out financial activities.

4) Will—if ever – the RMB become a truly global currency?

Since 2005, China government became less strict to its current regulation that they started to abandon its peg to the U. S. dollar and RMB was starting to move slowly to a floating exchange rate policy. The growing market of RMB in Hong Kong with the RMB-denominated bond by foreign countries shows the China government regulation and the restriction of the use of RMB. Considering China is the most potentially fast-growing country in the next decade, there is a high possibility that RMB becomes a reserve currency where governments around the world and central banks will want to hold and use as part of their foreign currency reserves. Although RMB is still controlled by the government regulation, starting from 2011 there is continuation of a “ managed floating exchange rate regime” that a slowly revaluation of the RMB against the dollar is happening inevitably and will continue.