# Comments on

## "*Who cares about the Chinese yuan?*"

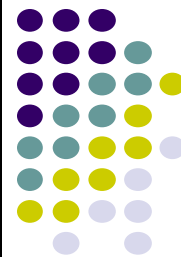Vimal Balasubramaniam, Ila Patnaik and Ajay Shah

Joshua Aizenman
UCSC and the NBER
March 16, 2011
NIPFP-DEA Delhi meeting

# The paper asks key policy questions, applying a useful methodology

- The results, while intriguing, are backward looking.

- I have doubts about the degree to which the results are informative about the future.

- With respect to China, *past performance is not necessarily indicative of future results…*
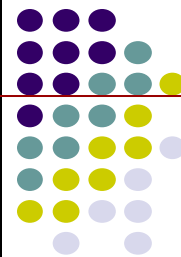
# Methodology

- For a benchmark currency, say CHF, estimate

$$d \log \left( \frac{CNY}{CHF} \right) = \gamma_1 d \log \left( \frac{USD}{CHF} \right) + \epsilon$$

- Apply the residual $\varepsilon$ as $d \log \left( \frac{CNY}{CHF} \right)$ in the regression

$$d \log \left( \frac{MYR}{CHF} \right) = \beta_1 + \beta_2 d \log \left( \frac{USD}{CHF} \right) + \beta_3 d \log \left( \frac{GBP}{CHF} \right) + \beta_4 d \log \left( \frac{JPY}{CHF} \right)$$
$$+ \beta_5 d \log \left( \frac{DEM}{CHF} \right) + \beta_6 d \log \left( \frac{CNY_o}{CHF} \right) + \epsilon$$

# Main results

- The GDP-weighted coefficient of the orthogonalised CNY in Asia is small.

- The GDP-weighted coefficient is roughly zero when computed at the level of LDCs and EMs and when computed for the entire world.

- The impact of RMB appreciation upon global aggregate demand will be small, since this will only act through the Chinese current account surplus. It is likely to have a limited impact upon the exchange rate policy choices of other countries.

- As of today, little evidence of RMB internationalization in affecting the role of the RMB in the exchange rate regime of other countries.

# Comments

- The paper asks important questions, applying a useful methodology.

- The results, while interesting, provide little information about the ultimate effect of large **independent** CYN appreciations on global patters.

- Past performance is not indicative of the future….

# Chances are that the past small controlled appreciations of the CYN were viewed as minor events

- The adjustment to CYN future appreciations would be non linear: close to zero for small changes, large for changes above a threshold, if the changes reflect a regime change.

- See the literature on the fix sunk costs of entry to a market [Dixit, Krugman, Melitz, etc…].

# Little unanticipated variation in the CNY implies limited information associated with regression analysis

- The results probably reflect the fact that, during most of this period, the CNY was de facto pegged to the dollar.

- The absence of sizable unanticipated variations in the data limits the power of econometric inference, even if the authors use the best econometric techniques.
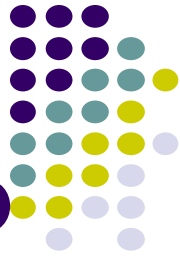
# A political economy view of the CYN history

- The changes of the CYN so far were the outcome pressure of the US congress, under the gun of a tariff threat. There has been no regime change, and the market has good reasons to view the appreciations, so far, as minor innovations without signalizing a regime change.
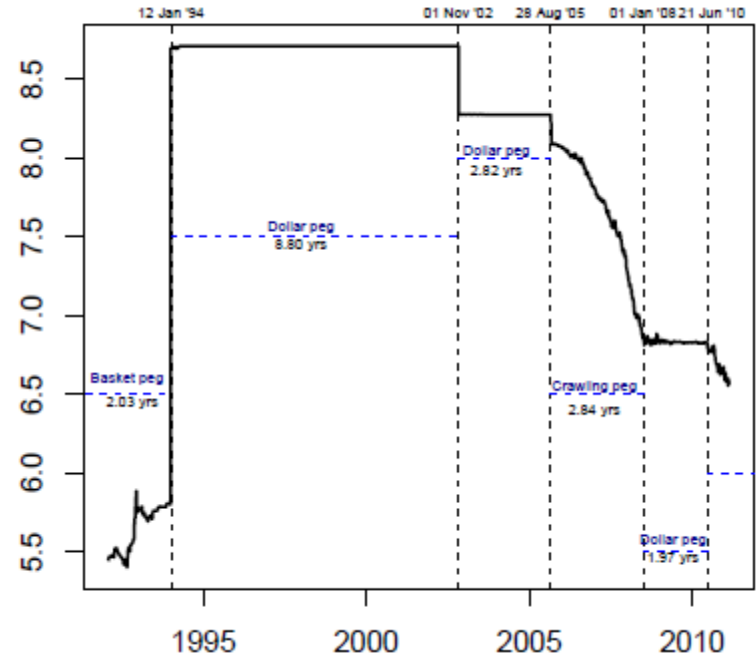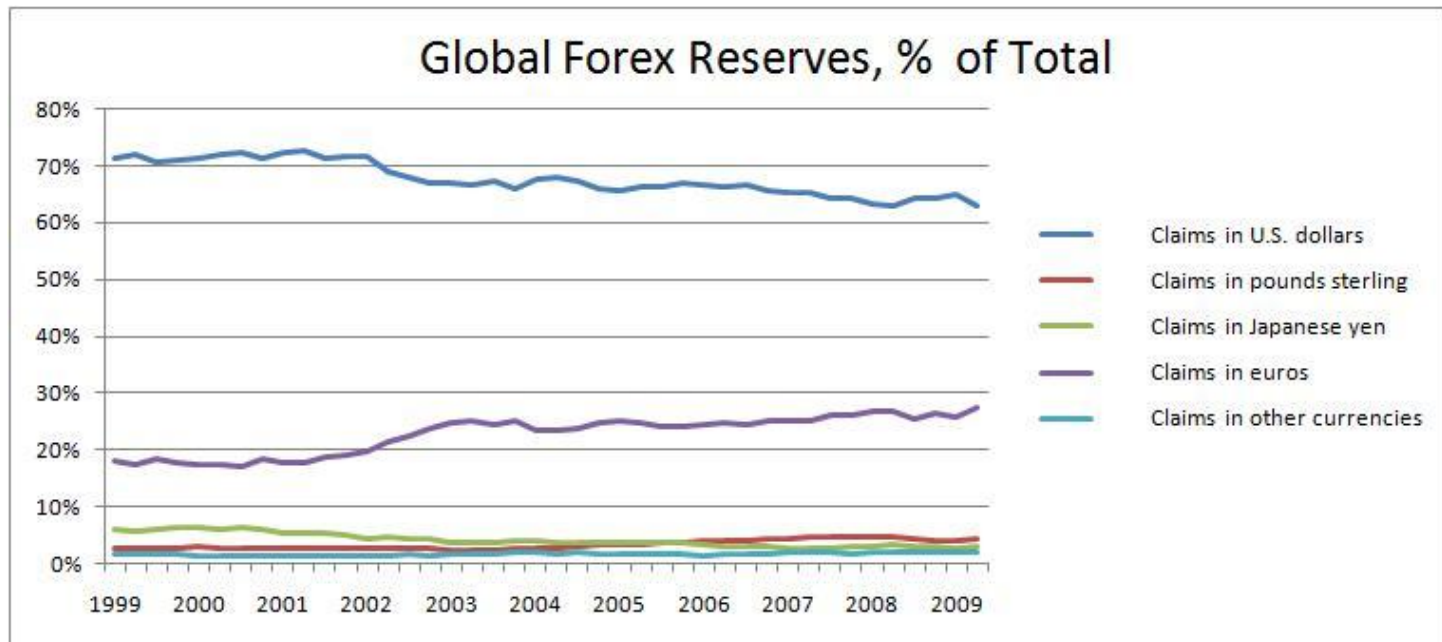
# *If one should speculate about the future development of the CYN…*
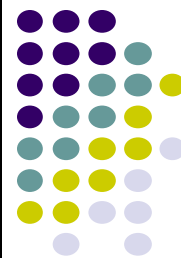
- Chances are that the process of the internalization of the CNY has been and would be controlled tightly by China.

- When China will decide that the time is right, they will do it in a big way.

- When this will happen, it will signal a regime change, and the impact of it would be large.

- The Euro gained 10% of the global market share of IR in it's first ten years…

# Chinese development process, so far, is much faster then that of Japan, Korea etc… at comparable stages.

## Global Forex Reserves, % of Total

Legend:
- Claims in U.S. dollars
- Claims in pounds sterling
- Claims in Japanese yen
- Claims in euros
- Claims in other currencies

# *Thanks for your attention*

http://crisiscartoon.blogspot.com/