THE WALL STREET JOURNAL.
WSJ.com

April 6, 2015, 11:20 AM HKT

China Sets Its Sights on Joining the IMF's Special Currency Club

Agence France-Presse/Getty Images

Groucho Marx once famously said he didn't want to belong to any club that would accept him as a member. China clearly holds a different view.

For China's policy makers, if there's a club, they probably don't want to pass up the chance to join it – from the Asia-Pacific Economic Cooperation Forum and the Caribbean Development Bank to the Group of 77 and the Zangger Committee. When that's just not enough, Beijing looks to start its own clubs – such as the Shanghai Cooperation Organization, or more recently, the Asian Infrastructure Investment Bank.

Beijing now has its eyes on yet another elite grouping – the IMF's Special Drawing Rights – an exclusive collection of global currencies that form a special reserve asset. Every five years the International Monetary Fund is supposed to review the composition of the basket, which is currently comprised of the dollar, the euro, the yen and the pound sterling.

Chinese officials have been pressing their case that the yuan ought to be part of this arrangement. They see inclusion in the SDR as something that would expand the yuan's role as a currency for international trade and investment. Beijing hopes that ultimately the yuan will be a reserve currency that rivals the dollar, and it has become more open about stating its ambitions of late.

The yuan has already taken on an expanded role in global trade. It ranked seventh as a currency for world payments in February, according to the Society for Worldwide Interbank Financial Telecommunication, or Swift. China is already the world's largest trading nation as measured by the sum of its exports and imports. But one obstacle hampering its goals for the currency is that the yuan is not entirely convertible.

China is working to address that issue. It has vowed to step up its efforts to remove most of the curbs on converting the currency under the capital account – which covers investments.

"People are paying a lot of attention to the issue of whether the yuan can be included in the IMF's Special Drawing Rights," said Zhou Xiaochuan, governor of the People's Bank of China, speaking to a recent gathering of politicians and business executives. He went on to say that China had already set a target of reaching that goal this year, adding: "We plan to make an all-out effort to achieve this."

That line has been echoed by other Chinese officials.

Wang Yungui, a senior official of the State Administration of Foreign Exchange, said recently that China is "actively seeking inclusion" in the IMF's Special Drawing Rights.

He said that authorities will keep opening up the country's capital account and easing restrictions on cross-border investments, though they will stay vigilant against any systemic risks and guard against significant capital outflows.

"I am confident the yuan will be included in the Special Drawing Rights," he said, without specifying when he thinks such a goal might be achieved.

The IMF doesn't say that currencies in the SDR have to be convertible, but it comes close, stating they need to be "freely usable."

Richard Cooper, professor of international economics at Harvard University, said he doesn't believe the yuan measures up on that score.

"No, in my view the rmb (yuan) is not now freely usable," he said, noting that there are curbs on some outbound as well as inbound investments.

Mr. Cooper, former U.S. under-secretary of state for economic affairs said, however, that the IMF could change its requirements — or perhaps the yuan could meet the standard at some point in the future. But he added that inclusion in the SDR was not essential for the internationalization of the currency, citing the Swiss franc as an example of a smaller reserve currency that is not in the club.

Cornell University professor of trade policy Eswar Prasad argues that the case against the yuan's admission to the SDR is less cut and dried.

"The notion of a freely usable currency seems to be distinct from that of a fully convertible currency. There is no accepted official definition, but the idea seems to be that the currency has to be widely used in international financial markets, a criterion the yuan arguably meets," he said.

Inclusion in the SDR would have "huge symbolism in recognizing and pushing forward the currency's rising role in global finance," Mr. Prasad said. "The IMF's imprimatur would help the yuan gain wider acceptance, although the immediate effects are likely to be limited as the currency's use would remain constrained by its lack of free convertibility and the limited financial market development in China."

Of course, getting into the SDR isn't an all-consuming issue for the average comrade-on-the-street. And even among economists there are those who are less than convinced about the need for inclusion.

Asked recently for his response to the campaign to join, Li Yang, vice president of the Chinese Academy of Social Sciences, put it succinctly: "I don't think it's that important."

– William Kazer. Follow him on Twitter at @wkazer