

## Premier raises eyebrows with yuan forex comment

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Premier Liu Chao-shiuan said in an interview with Dow Jones Newswires on Thursday that Taiwan could consider including the Chinese yuan in its foreign exchange (forex) reserves, but his view was not shared by other government officials.

During the interview, Liu said Taiwan could consider including the yuan in its foreign exchange reserves as cross-strait ties expand at an unprecedented pace.

"This can be considered, although we don't have a time frame at the moment," Liu was quoted as saying in the interview.

When contacted by the Taipei Times by telephone for elaboration yesterday, Vice Premier Paul Chiu said he didn't understand why Liu mentioned the subject.

"It was just [Liu's] idea and he has said no time frame was set, which meant there are many conditions that need to be met before action is taken," Chiu said.

Earlier yesterday, when approached by reporters for comment, Chiu said the yuan was not an internationally circulated currency because China has not opened its capital account.

"We are unable to find out whether [China] will open its capital account or predict the degree of circulation of Chinese yuan in the future. [Given these, including the yuan in foreign exchange reserves] is just an idea at present," Chiu said.

The central bank yesterday also flatly rejected the yuan idea.

In a brief statement posted on its Web site, the central bank said it had no plan to include yuan in its foreign exchange reserves because it is not a "freely convertible currency," stressing that no counterpart around the world has included the currency.

The central bank also dismissed local media reports claiming the US dollar dominated the nation's foreign exchange reserves at 60 percent, while the euro and the Japanese yen account for 30 percent, with various other currencies filling the remainder.

"The reports are inaccurate," the statement said.

The nation's forex reserves totaled US\$321.09 billion at the end of last month, the central bank said on Aug. 5. Taiwan holds the world's fourth-largest forex reserves, behind only those of China, Japan and Russia.

Earlier this week, the Legislature's Organic Laws and Statutes Bureau published its assessment report on cross-strait financial ties and recommended the central bank convert part of the foreign exchange reserves into Chinese yuan. The bureau said the central bank could

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deposit its foreign exchange reserves denominated in yuan in Taiwanese banks to be set up in China to help them gain a more secure foothold in the Chinese market.

An official yesterday said on condition of anonymity that the yuan issue was not a story worth pursuing because he believed that Liu was asked a question on a topic he was not familiar with and he gave an indefinite answer.

"I didn't see any reason why we should regard yuan as a foreign exchange reserve currency. Normally only internationally circulated currencies are components in a country's foreign exchange reserve investment portfolio," the official said.

An aide to Liu said she was not able to elaborate on what Liu had meant because she "was not aware" that the issue had been discussed in the office.

Chen Kuo-ming, director of the Government Information Office's Liaison Office, who was present during the Dow Jones interview, said that Liu had made the comment because he had been asked a question.

"I did not feel that Liu was making an announcement when he talked about the issue, neither did I think he was sending up a trial balloon. The question was brought up following some other questions regarding cross-strait issues, and Liu's attitudes on these questions had been the same — he is open to discussion and has no time frame," Chen said, referring to other questions asked during the interview on issues about a cross-strait financial memorandum of understanding (MOU) and economic cooperation framework agreement, among others.

Jack Huang, head of research at SinoPac Financial Holdings Co, said yesterday he didn't think Liu had raised the yuan issue during the interview on purpose, although he gave his support to the idea because companies and people would have easier access to the Chinese currency and the central bank would increase its income from interest.

Norman Yin, a money and banking professor at National Chengchi University, said he believed Liu's proposal did not come out of nowhere.

Liu might have meant that Taiwan and China would establish a foreign exchange (FX) swap, an agreement that China has signed with seven or eight countries, like Russia and South Korea, Yin said.

FX swap is a mechanism whereby two parties exchange agreed-upon amounts of two currencies as a spot transaction, simultaneously agreeing to unwind the exchange at future dates.

Yin said the FX swap was already included in the cross-strait negotiation on signing the financial MOU, the details of which are still unclear.

He said Taiwan and China would benefit from the FX swap as trade and investment could be conducted without converting their currencies to US dollars.

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“The FX swap would help businesspeople save on conversion costs. With the mechanism in place, we also won’t see a surge in the nation’s foreign exchange holdings in US dollars when cross-strait trade picks up. The US dollar’s exchange rate is not that stable, and more and more people are losing their confidence in the greenback,” Yin said.

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