

answer to that question seems to be very difficult. But methodically speaking, we can affirm that only when private ownership cannot be necessary form of production forces, no longer plays the role of promoting the development of production forces and becomes “the chains” contradicting sharply with that development, it will be abolished. It is a natural-historical process of development in accordance with the laws of the appropriateness of relations of production for the development of production forces. The transformation of concrete forms of private ownership into other types of ownership, such as mix or collective ownerships and so on ...is a spontaneous process based on objective requirements set up by the concrete development of production forces.

From the above-stated points, we can say that the development of an economy with diverse economic sectors and forms of ownership should be a long-term and optimal strategy to make the economy dynamic in order to develop production forces and improve the living of working people. It is also serves as one of criteria in evaluating the efficiency of building of relations of production with socialistic orientation. The forthcoming success of our cause of renovation depends significantly on policies and solutions for making use optimally various types of ownership, including public, cooperative and private.

International Political and Economic Factors and Development of the RMB Exchange Rate Mechanism

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1. Relationship between Development of RMB Exchange Rate Mechanism and the Chinese International Political Position

It is not plain sailing with a considerable tortuous process for the RMB to be changed from a means of payment in the planning economy to a gradually matured currency in the Chinese socialist market economy. What kind of currency the RMB will become and what an international position it will locate. A great attention has

been paid to these questions both at home and abroad.

Interest Rate, no matter it is low or high, reflects the costs and expenses of money borrowing and lending within the economic system of a country, and foreign exchange rates, no matter it is rising or falling, is an exchange price of the domestic currency in terms of the currencies of other nations. Besides exchange price, the foreign exchange rate mechanism of a currency of a nation represents the relations between its own currency and the currencies of other nations over the world.

The foreign exchange system can be divided into two categories. One is that foreign exchange rate keeps fixed or free floating; the other is whether a currency itself including the level of interest rate can be freely exchanged. Based on these two structural mechanisms, another question will be derived, namely the question whether foreign exchange rate level is higher, lower or balance. In other words, a currency will appreciate or depreciate. Currency appreciation is a special hot topic in the current situation, and the concern with the RMB appreciation has been shown greater than whether the RMB can be freely exchanged and floated in a complete way.

It is a key question whether the RMB has turned into the situation of free exchange and free floating even if the RMB has rapidly appreciated finally in terms of the path to long-term strategic development in the future. China, with continuous growth of the total amount of goods producing and consuming and gradual enhance of proportion in the world economy, has become the third largest trade country although there is some statistical exaggeration in processing with foreign supplies in foreign trade. Therefore, when and under what circumstance the RMB will inevitably become completely free exchange and free floating in a gradual way or by the agreement on international politics and currency. It is a challenging historic event in the field of international money and finance.

In international commodity trade, it is astonishing and shocking that China has gradually put seven or eight hundred million labour forces to participate in the great circulation in the world economy. If China will allow the RMB and its financial products with increasing total monetary amount to integrate into international financial markets to participate in great circulation in the future ten years, it will result

in the same great impact on and profound shock to the world monetary and financial patterns.

With the persistent development of Chinese national economy, the functions of the domestic currency (that is the RMB) will inevitably develop and promote from time to time. Some functions of the RMB have performed in accordance with the orientation decided by the national policies, some functions have been formed naturally without any promotion by an active policy, some functions will depend on development of foreign economic and trade, and some functions will be restrained or promoted by the political factors.

There now exists the world monetary system in the world, which is continuously working as a framework of International Monetary Fund (IMF) (not as a centre).

The more than one hundred members of the IMF have located their domestic currencies in the international positions and determined the relations between their domestic currency and the currencies of other nations according to the regulations concerned formulated by the IMF.

The main land China was not a member of the IMF for a long time. China has become a member of the IMF until entering into the United Nations after breaking up the long-term veto power of the United States in the 1970s. Only China has joined in the United Nations can it become a member of the IMF. From this fact we can see that International political relations go ahead of international economic relations.

There is a Nobel Prize winner of economics who has pointed out that international monetary system has produced a greater impact on the political events in the 20th century. However, on the contrary, the international political turbulences and the changes of the international political camps in the 20th century have continuously and persistently sculptured the international monetary system. China's joining in the IMF and the Euro as an independent common European currency are the two important international monetary and political events happened in the modern world.

The IMF, one of the several important multilateral-international organizations such as the United Nations, World Bank and General Agreement on Tariffs and Trade (reorganized as World Trade Organization several years ago) and so on, was

established by the western developed nations headed by the United States who tried to maintain its leading position after the Second World War. These multilateral-international organizations have performed unevenly, and among these international organizations, Although the IMF has performed a bit well on the whole, it has no enough power to solve and deal with the international monetary and financial affairs.

Especially after the United States abandoned the dollar-based gold standard because losing its economic power in the 1970s, the western international monetary system is thereby described as a nominally existing system where the conditions and situations have not changed yet up to now. However, although the United States has abolished its responsibility of the gold standard system, the US dollar, working as an international reserve currency derived from the original gold standard, has still continuously shared the special advantages in many parts over the world. This contradiction will change into a seriously international political contradiction as the US foreign debt and deficit on balance of payment have increased rapidly.

2. Change of Sino-American political & Economic Factors influencing RMB Exchange Rate Mechanism

The one of major international political factor and two of main domestic factors that influenced and are influencing the development of the RMB exchange rate mechanism, namely the United States, and Hong Kong and Taiwan.

The unfreezing of the Sino-American relations at the beginning of the 1970s has brought about the essential development space and maturity of the RMB within the Chinese market economy and has laid a solid foundation of the RMB as a function of international currency in the future.

The arrangement of successful return of Hong Kong in the 1990s has promoted the policy of the RMB pegging to the US dollar for the purpose of political consideration, because the Hong Kong dollar has kept the relation with the US dollar. Besides the political consideration, it is worthy to further study and analyse the advantages and disadvantages over the Chinese economy and foreign trade resulted from the comparatively fixed exchange rate policy with pegging to the US dollar in

the recent ten years, and the costs resulted from the fact that China has and will continuously joined in the quasi-US dollar area.

Whether the Taiwan issues will be solved in a way of peace or war will inevitably produce the effects on the trend of the RMB and the change of its mechanism. The contradictions of economic development and foreign trade between China and the United State has already embodied in the recent change of the RMB exchange rate mechanism. The multilateral and bilateral change of international political relations will further generated a strong shock on the RMB mechanism.

It may be almost concerned that the political sensitiveness of the RMB will not automatically disappear before the main land China and Taiwan have been unified, that is, under the situation in which there is a possibility that the war will be unfortunately launched by the political factor of Taiwan independence. Therefore, the free exchange and free floating of the RMB will depend not only on economic decision-making but also on international political changes and the political situation of Taiwan.

3. The further impact of international political and economic situation on the RMB

The RMB is a currency impossibly existing in the internationally vacuum conditions and is not a monetary tool in the bilateral relations of economic and trade and financial relations between China and the United States, and it will become an important currency in the multivariate and multilateral political and economic relations in the world.

In the current monetary world there exists the monetary system with the three key currencies such as the US dollar, the Euro and the Japanese yen. Because the long-term imbalance of the US economic structure and relative decline of its economic power, the special position of the US dollar has been increasingly challenged by the Euro and Japanese yen.

The RMB pegging to the US dollar has not conformed to the American benefits, and allowing the RMB complete free exchange and free floating has also not accord with the Chinese current national conditions. Now China must make full preparations.

The international financial competition between the key three currencies such as the US dollar, the Euro and the Japanese yen will be more and more sharp. With the development of the Chinese economic power, the United States, the European Union and Japan will pay more attention to the trend of the RMB. It is necessary for China to make an objective valuation to international functions, position and design of internationalisation of the RMB, to the economic power behind the US dollar, the Euro and the Japanese yen, and to the fundamental spaces of the long-term mutual economic complements between China and these nations.

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