Lingnan University 嶺南大學 香港 Hong Kong

ECON DEPARTMENT OF ECONOMICS

Research Finding Seminar

"Central Bank Bilateral Currency Swap and Trade Flows: An Implication for Renminbi Internationalization" (in English)

Presenter:	**Mr. MOHAMMED, Abdullahi Ahmed (PhD Student)**
Date:	11 April 2019 (Thursday)
Time:	2:00 pm – 2:45 pm
Venue:	WYL314, Dorothy Y. L. Wong Building
Chief Supervisor:	Prof. CROZET, Matthieu Daniel (Associate Professor)
Co-supervisor:	Prof. WHITTEN, Gregory William (Assistant Professor)

Abstract:

The emerging economic prosperity of China and its increasing economic integration with the rest of the world as the second largest economy seems to give China an edge to amplify its global competitiveness. For example, the accession of China to World Trade Organization in the early 2001 has intensified its rapid GDP growth, growing trade and current account surpluses, financial inflows and growing stockpiles of reserves holdings. The global financial crisis of 2008 nearly put a halt to China's export-led and current account surpluses trajectory, in 2007 China's current account surplus fell from 10% of GDP to about 2% in 2013. This necessitates the internationalization of the Chinese Renminbi to boost trade, investment and hedge against foreign currency risk through bilateral currency swap. In bilateral currency swap, on the trade date, counter parties exchange notional amounts in two different currencies. For instance, one party receives 30 million British pounds while the other receives 3.3 million Chinese Renminbi. This implies a GBP/RMB exchange rate of 1.1, and at the end of the deal they swap again using the same exchange rate. Evidently, the currency bilateral swap agreements signed by the People's Bank of China and some Central Banks in advanced, emerging markets and developing economies is reinforcing the trend of Renminbi internationalization in global trade. The thesis applies trade gravity equation to investigate China's Renminbi bilateral swap agreements and trade flows. we empirically investigate impact of the bilateral currency swap agreements on international trade flows. Using large panel data of over 200 countries from 1979 - 2013 for the first time to the best of our knowledge. The empirical results show that currency swap as an emerging international trade agreement is trade creating. We find that the magnitude is relatively close to what is documented in the literature for other kinds of trade agreements like the currency unions and free trade agreements. This may potentially provide impetus for countries that embrace China's currency swap line. Similarly, most of the bilateral swap lines offered by People's Bank of China have been to countries that trade more with China. Furthermore, since bilateral currency swap enable countries to boost their liquidity access in the financial system for trade and financial transaction. Therefore, it is important to examine the financial development of both China and its currency swap partners. The empirical results show that bilateral currency swap line matters for trade in countries with relatively low-level financial development. Keywords: Central Banks, RMB Bilateral Currency Swap Line, China, Trade Flows and Financial Development.

ALL ARE WELCOME

For enquiry: 26167047 (Kathy)