# On Capital Account Convertibility

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# Outline

- **What Is Capital Account Convertibility?**
- **International Comparison**
- **The Chinese Case**

# What is Capital Account Convertibility?

- **I. No clear standard**
  - Current account vs capital account convertibility
  - Latest view: some capital control may be desirable for EMEs
- **II. Capital account convertibility and other reforms**
  - Exchange rate reform
  - Free capital flow
  - Access to financial market
  - Currency internationalization

# What is Capital Account Convertibility?

- **III. Managing capital flow after convertibility reform**
  - AML, CFT, preventing abusive use of tax haven
  - Macroprudential management of external debt
  - Macroprudential management of short term capital flow
  - Temporary control in times of crisis

# International Comparison

- **In sixty countries (regions) which have announced capital account convertibility, the OECD countries have higher level of capital account convertibility.**

- **For OECD economies**

- Capital flow management mainly focus on macroprudential, national security, etc.

- **In Non-OECD economies**

- More administrative controls are in place: Tobin tax, quantity control, account management

# International Comparison

- **Brazil**
- Take a gradual approach
- Coordinate capital account convertibility with other financial reforms
- Apply price tools to manage cross-border capital flows (e.g., Tobin tax)

- **India**
- Announce a roadmap and timetable to guide market expectations
- Coordinate capital account convertibility with other financial reforms
- Combine price and quantity controls

# The Chinese Case

- **RMB Convertibility: historical review**
  - **First raised as a policy goal** in 1993
  - RMB **current account convertibility** realized in 1996
  - **Faced challenges** (due to unstable international environment, and disagreements on pros and cons), and **paused** during the Asian financial crisis
  - **Emphasized again as a policy goal** in 2003, and capital account liberalization re-started
  - **Slowed down** as the latest financial crisis spread in 2007
  - **Progress** in the last ten years : QFII, QDII, bond market issuance and investment, RQFII, and FDI

# The Chinese Case

- **Pros**
  - Global perspective
    - economic globalization
    - international capital market integration
    - reform of international monetary system
  - Domestic perspective
    - change the development model
    - control inflation
    - internationalization of RMB
    - necessary part of market economy
    - natural component of open-door policy

# The Chinese Case

- **Cons**
  - Risk of external debt
  - Risk of speculative attacks by short term capital flow
  - Risk of derivative products

# The Chinese Case

- **The current status**
  - Most of the items of capital account have capital flow channels (5 items are fully convertible, 4 items are not convertible, the rest have realized partial convertibility )
  - De facto convertibility is higher than nominal convertibility
  - Capital control mainly relies on pre-approval and quantitative tools

# The Chinese Case

- **The current Status**
  - Not far from RMB capital account convertibility
    - Current convertibility score: 71 points
    - Not far from the average score of EMEs (82 )
  - Main gaps
    - Capital market transactions
    - Personal investment channel
    - FDI

# The Prospect

- Personal capital account
- Capital markets
- Administrative reform

# Thank You !