

# WSJ Survey: Yuan No Challenge to Dollar Amid China's Tiptoe Toward Freer Markets

By IAN TALLEY – December 10, 2015

China's yuan is highly unlikely to challenge the dollar's hegemony as the world's most used reserve currency in the next 50 years despite winning International Monetary Fund backing, according to economists surveyed by The Wall Street Journal.

The IMF last week added the yuan to its elite basket of reserve currencies, acknowledging the growing heft of the world's No. 2 economy and encouraging Beijing to move ahead with promised liberalization.

But economists surveyed by the Journal expressed deep uncertainty about the country's political and economic fate. Beijing's ponderous move toward freer markets and a more open society will likely keep a tight lid on the yuan's appeal as a reserve currency in the decades ahead, many said.

"Until China fully transforms its nation into an open democracy with an economy much more transparent, subject to market forces...there is no chance the renminbi will overtake the U.S. dollar," said **Economic Outlook Group's Bernard Baumohl**. To match the dollar's appeal, China will need markets as deep as those in the U.S. and to produce economic indicators that are trustworthy, he said.

Mark Nielson of MacroEcon gave China a 40% chance of the yuan challenging the dollar's rule in the next fifty years: "Long-term China stability is uncertain."

And Sam Kahan and Jim Meil of ACT Research said, "Unless there is a dramatic change in the economic and political structure of China, the yuan won't be a challenger."

Economists on average gave the yuan a 7% chance of testing the greenback's global supremacy in the coming decade, one-in-five odds over the next 25 years and only 34% chance within 50 years. The Journal surveyed 65 economists Friday through Tuesday, though not every forecaster answered every question.

"The odds go up if freedom and capitalism are allowed," said David Berson at Nationwide Insurance.

In reaching the decision to add the yuan to its basket of reserve currencies, the IMF pointed to China's trade and efforts to start opening its financial system to international investors.

But Ram Bhagavatula of Combinatorics Capital said "faith in a legal framework is more important than trade volumes."

Rajeev Dhawan at Georgia State University's Economic Forecasting Center said the yuan would gain reserve appeal only if global holders of yuan could buy Chinese assets without restriction.

"Never happening," he said.

James Smith at Parsec Financial gave China even lower odds: "China faces collapse (like Japan) by 2050."

In the near term, economists were divided on whether China would depreciate the yuan significantly in the next year in the face of a cooling economy.

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