

# China's capital account convertibility and financial stability

James Laurenceson & Kam Ki Tang\*, China's capital account convertibility and financial stability. East Asia Economic Research Group† Discussion Paper No. 5, October 2005, School of Economics, The University of Queensland. Queensland.

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## ***Abstract***

*Capital account convertibility in China is on the rise. Some see the process as a means of circumventing domestic financial sector inefficiency while others view it as potentially exposing China to financial crises. In considering these different viewpoints, this paper attempts to quantify the impact that opening the capital account will have on the volume of China's international capital flows. It is found that were China to fully open its capital account, gross non-FDI capital flows are predicted to rise by around 4.6 percent of GDP. While an increase of this magnitude would present a prudential challenge for China's monetary authorities, it does not appear to be large enough to seriously call into question financial sector stability, either in China or abroad.*

**JEL classifications** – F30, F47

**Keyword:** Capital account convertibility, China.

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† The East Asia Economic Research Group was established in July 2005, providing a focal point for East Asia-related research of an economic nature, conducted by academic staff of the School of Economics at The University of Queensland, their research collaborators and other interested contributors.