

Opportunities: China

- China is the largest economy in the world
- Surpassed the UK in 2005
- Surpassed Germany in 2007
- Surpassed the US as the world's biggest trading nation in 2015
- Surpassed the US as the world's biggest economy in 2014
- Exchange rate
 - Low volatility
 - Nearly government intervention
- The RMB possesses the first and second strength laid by Frankel
- China also fulfills the additional demand of Cohen
- Largest global exporter
- Well integrated and connected

Opportunities: U.S

- The decline of the US dollar
- Very large and sustained US federal budget deficits
- Future inflation
- US Current Account deficits (Kishner, 2008)
 - Massive
 - Suggesting that the dollar is overvalued
 - Set to depreciate
 - The dollar is losing value
- Financial crisis
 - Loose US fiscal and monetary policies (Hyung-Kyu, 2013)
 - The US Dollar losing investors' and consumers' confidence



Problems: Economic

- China's underdeveloped financial system
 - Capital market is in its infancy
 - Hong Kong Dim Sum market
 - Shanghai Stock Exchange
 - Panda bonds
 - The financial market is shallow
 - China lacks Europe's third strength (Hyung-Kyu, 2013)
- The rigidity of the RMB (Wu and Di, 2010)
 - The RMB: most restricted currency
 - partly convertible
 - inconvertible for international trade and capital accounts
 - For fear of capital flights and prospects of a financial crisis
- Limited channels of supply
 - Unable to supply through current account
 - RMB lacks the availability required

Problems: Political

- The International Political Power
 - The US power is still much more significant
 - Military power
 - Myung-Kyu (2013)
 - In 2011
 - US military spending: 41% of total spending
 - China military spending: 8%
 - US operational nuclear weapons: 2150
 - China operational nuclear weapons: 40
- Soft power
 - Susan Strange
 - Structural power
 - Intella

Theoretical Strategies

- Wu, Pan and Wang 2010
 - emphasis on demand
 - triple A concept
 - size of economy – world GDP – China at 4.6%, US at 28.5%
 - acceptability – share of world FX turnover – US at 16.1%, China at 0.32%
 - stability of currency – inflation – US average 2.8%, China at 1.1%
 - convertability – RMB less convertible
 - Backed by Chey 2013
 - political stability, low inflation, good reputation for laws and property rights, financial markets
- Aglietta 2011
 - emphasis on power
 - Chey 2012
 - emphasis on international political power

Current Strategies

- stock market expansion
- currency swap agreements
 - local
 - international
- RMB use in cross-border trade settlements
- issuance of 'dim sum' bonds
- offshore inter-bank RMB transfers
- overseas bank investment in mainland interbank bonds
- FDI using RMB obtained overseas
- Foreign aid
- Daily trading
- onshore and offshore markets for yuan-denominated bonds

Potential gains

- Cohen 2011
 - reduced transaction costs
 - emigration
 - macroeconomic flexibility
 - leverage
 - reputation

Aims

- aim to internationalise the RMB
- enhance the economy
- change the balance of payments
- expand the global power status
- increase the RMB's international convertibility (Wu)
- and to improve the country's

Conclusion

- Unlikely to replace the USD as the world's reserve currency, at least not in the near future
- Likely to become Asia's main regional currency
- Reasonably likely to become a currency used in SDRs

Introduction

- People's currency of China
- The official currency of China
- The yuan is the basic unit of the renminbi
- One yuan is subdivided into 10 jiao and 100 cun
- Other world's national currencies that are being used
- China's Mainland
- China's Yuan = 100 Jiao = 1000 Cun



International Conventions

Country	Official Currency	Unit
China	Renminbi	Yuan
USA	Dollar	Dollar
UK	Pound	Pound
Japan	Yen	Yen
India	Rupee	Rupee
South Africa	Rand	Rand
Canada	Dollar	Dollar
Australia	Dollar	Dollar
Brazil	Real	Real
Argentina	Peso	Peso
Chile	Peso	Peso
Colombia	Peso	Peso
Costa Rica	Colón	Colón
Cuba	Peso	Peso
Dominican Republic	Peso	Peso
Ecuador	Dólar	Dólar
El Salvador	Dólar	Dólar
Guatemala	Quetzal	Quetzal
Honduras	Lempira	Lempira
Indonesia	Rupiah	Rupiah
Malaysia	Ringgit	Ringgit
Mexico	Peso	Peso
Nicaragua	Córdoba	Córdoba
Paraguay	Guaraní	Guaraní
Peru	Sol	Sol
Puerto Rico	Dólar	Dólar
Uruguay	Peso	Peso
Venezuela	Bolívar	Bolívar

China and Internationalisation

- #### Should China want an international currency?
- Frankel (2013)
 - The internationalisation of their currencies
 - US dollar
 - Japanese Yen
 - Notre looked for the internationalisation of the currency
 - The costs of having an international currency
 - competitiveness
 - When foreigners buy and hold currency, they receive US dollars
 - This harms the competitiveness of the country's exports
 - The control of the financial system
 - An internationalised RMB means that the China's financial market must be free and deregulated to allow the movement of capital
 - The loss of cheap capital

China's Yuan as an international currency

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China's Yuan as an international currency

Predictions

- Likely to fail
- too much too quickly
- will a long way to go
- Likely to succeed
 - Chinese exceptionalism
 - transnational networks already in place
 - second largest economy

Trajectories

- Likely to continue to become more successful
 - needs continued reforms
 - need improving international relations
 - provided there are no negative economic shocks in China
 - political upheaval
 - speculative attacks
 - deep recessions
- Regionalisation
- Monetary dominance unlikely

Desired impacts: China

- improve the market in Hong Kong
- greater use of the RMB in international transactions
- change composition of SDRs
- greater global influence
- reduction in risk
- greater flexibility
- greater domestic purchasing power
- greater international power

Desired impacts: others

- reduce US deficit
- remove global imbalances which led to the financial crisis
- creation of an Asian economic zone
- reduce US interference in Asia

Internationalization of Chinese Yuan and its implications on Global Finance

Introduction

- 'People's currency' in Chinese
- The official currency of China.
- The yuan is the basic unit of the renminbi ¥
- One yuan is subdivided into 10 jiao, and 1 jiao subdivided into 10 fen.
- Official users: Mainland China (but not Hong Kong nor Macau), Zimbabwe
- - 1 Chinese Yuan = 0.11 British Pound = 0.15 US Dollar



International Currencies

Characteristics

	Microeconomics	Macroeconomics
Medium of exchange	International trade	Current account
Unit of Accounting	Trade invoicing and settlement	Exchange rate
Store of Value	Financial markets	Reserve

- Frankel (2011)
 - Three fundamental strengths
 - The size of the home economy
 - The confidence in the value of the currency
 - The development of its financial markets
 - Depth
 - Openness
 - Liquidity
 - Dependability
- Wu and Di (2010)
 - Triple A concept
 - Ancestry
 - Acceptability
 - Availability
- Ben Cohen (2012)
 - A well integrated economy
 - A broad transaction network

China and Internationalisation

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Does China want an international currency?

- YES.
- 'The Timing, Path and Strategies of RMB Internationalisation' (PBOC, 2006)
- The internationalisation of the yuan is an official goal of Beijing.
- Why?
 - The benefits outweigh the costs.
 - The danger of a US dollar-denominated international financial system.
 - Mallaby and Wethington (2011)
 - Recent global crisis
 - China as the largest exporter and biggest trading nation, China is highly vulnerable.
 - Hyoung-kyu (2013)
 - Beijing's massive dollar-denominated foreign reserve
 - Insidious threat