

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 out by Frankel
- China also fulfills the additional demand of Cohen
- Largest global exporter
- Well integrated and connected

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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)
 - China lacks Europe's third strength
- The US Dollar losing investors' and consumers' confidence

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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
- 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

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Problems: Political

- The International Political Power
 - The US power is still much more significant
 - Military power
 - Hyung-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
 - Inertia

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

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

Percent share of world foreign exchange turnover by currency and by country

Currency	Share (%)
US Dollar	16.1
Euro	12.5
Japanese Yen	11.8
British Pound	11.2
Swiss Franc	10.5
Canadian Dollar	9.8
Australian Dollar	9.2
Chinese RMB	0.32
Other	38.8

Aims

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

Current Strategies

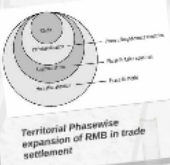
- stock market expansion
- currency swap agreements
 - local
 - international
- RMB use in cross-border trade settlements
- issuance of 'dim sum' bonds
- offshore inter-bank RMB transfers
- overseas bank investment in mainland interbank bonds
- FDI using RMB obtained overseas
- Foreign aid
- Daily trading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

Potential gains

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

Outlook

- influential factors
 - political
 - use of power
 - dependency
 - confidence
- economic
 - financial liberalisation
 - economic size
 - supply channels
 - liquidity
 - transnational networks
- Considerable next steps
 - liberalise financial markets
 - increase influence
 - increase global power and influence
 - keep growing
 - improve channels of supply
 - loosen capital controls
 - allow for convergence of the onshore and offshore markets



Predictions

- Likely to fail
- too much too quickly
- still 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
 - Debt crisis in the Eurozone
 - financial crisis 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

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Russia and China: Energy Relations and International Politics

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



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China and
Internationalisation

International Currency

Characteristics		
	Microeconomics	Macroeconomics
Medium of exchange	International trade	Currency
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

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International Currencies

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China and Internationalisation

Should China want an international currency?

- Frankel (2011)
 - The Internationalisation of three currencies
 - US Dollar
 - Deutsche Mark
 - Japanese Yen
 - None pushed for the internationalisation of the currency.
- The costs of issuing an internationalised currency
 - Competitiveness
 - When foreigners buy and hold currency, they increase its value.
 - 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 free movement of capital.
 - The loss of cheap capital.
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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 (201)
 - 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

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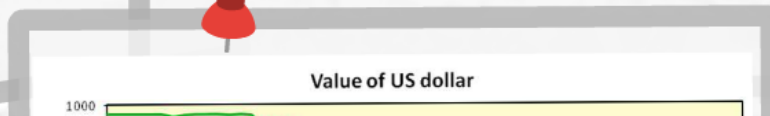
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