

# Global Imbalances and Internationalization of RMB

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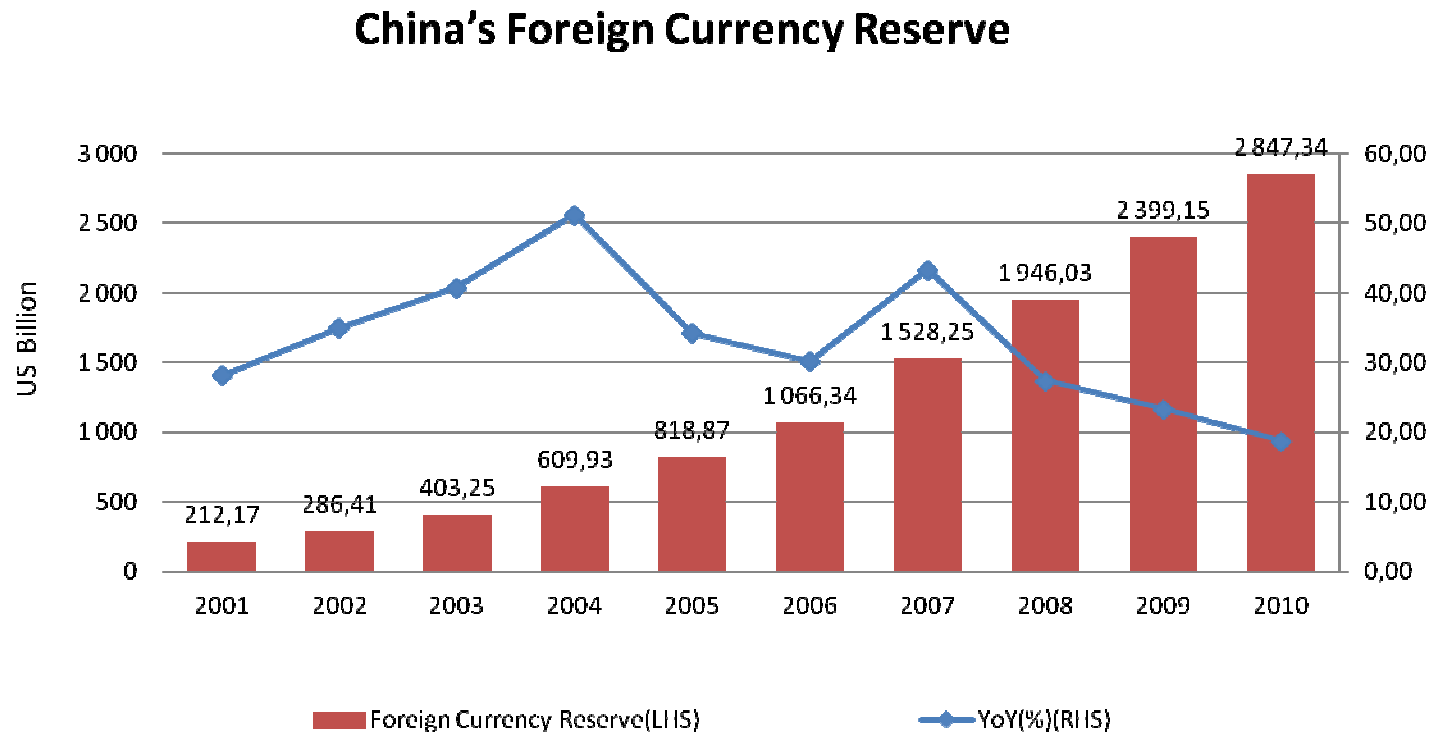
# Export-led Growth and Global Monetary System

- For the past thirty years, China pursued an export-driven development strategy
- In the mean time, under the USD-centered Global Monetary System, USA pursued a strong dollar policy which led to excessive imports and consumption
- European countries also worked hard to create a strong international reserve currency, the Euro

# Global Trade and Money Imbalances and Growth

- Consequently, significant amount of goods at affordable prices flow into developed countries, allowing them to grow with low inflationary pressure
- At the same time, significant amount of money flows into China, generating high growth rates for 30 years
- Part of the money flows into China is used to buy US debt and helps to finance US consumption
- How long can the party last?

# China's Foreign Currency Reserve



Source: Wind



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# Un-Sustainability of Export-led Growth

- After its recent financial crisis, US economy dips into a protracted low growth period
- Euro area has also been hit by its own sovereign debt crises and recessions
- It is clear to China now that it can no longer rely on exports for its sustainable economic growth, China should change its strategy



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# Global Financial System Is Part of the Problem

- The global imbalances are partly the results of strong financial and monetary positions of advanced economies
- And partly the results of weaker (almost non-existent until recently) role of China and RMB in the international monetary and financial systems

# Internationalization of RMB as Part of a Solution to Global Imbalances and Growth

- If Chinese RMB becomes an international currency and it can flow out of China, it will balance off the inflow of foreign currencies; China will have a reduced FX reserve
- The ability to use RMB for international trade settlements and payments can create more import, and stimulate domestic consumption



# Steps of RMB Internationalization

- Trade Settlements in RMB
  - This started last year and made great progress
- Off-shore RMB Market Experiments in Hong Kong
  - Off-shore RMB denominated instruments
- More Market-based Exchange Rate Regime
- Capital Account Liberalization
  - Allow inflows and outflows of RMB
  - Full convertibility
- RMB Becomes Global Reserve Currency





# Inclusion of RMB into SDR

- As a first step for RMB to become a global currency, it should be included into SDR
- We believe this can be done even when RMB is not fully convertible
- In this case, the RMB-included SDR is not mainly used as a transactional currency
- It will serve as a better monetary anchor for coordinating global macroeconomic policies



# Internal Impacts and Challenges

- Need to Marketize RMB Interest Rate
- Creation of More Sophisticated Financial Products in RMB
- Chinese Financial Institutions Need to Deal with More Risks and Foreign Competition
- Firms Also Need to Deal with Financial Risks
- China Needs to Build a Sophisticated Financial System and Stronger Financial Institutions

# External Impacts and Challenges

- Less Outflow of Chinese Goods
- More Expensive Chinese Goods
- More Import of Foreign Goods
- More Outflow of Chinese Capital
- Acceptance of RMB as a Global Currency



# Internationalization of RMB as a Strategy

- It is good for China even though there are substantial short term resistance and risks
- More importantly, It is good for a more balanced and sustainable world economy
- The world should encourage it



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