


The People's Money

HOW CHINA
IS BUILDING
A GLOBAL
CURRENCY

THE PEOPLE'S
MONEY 

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“China, the largest nation in the world, remains both an enigma and a potential factor in world stability”

Outline

- Why the renminbi?
- A trading nation without an international currency
- Building a market for the renminbi
- ‘Managed convertibility’
- The age of Chinese money?

A trading nation without an international currency

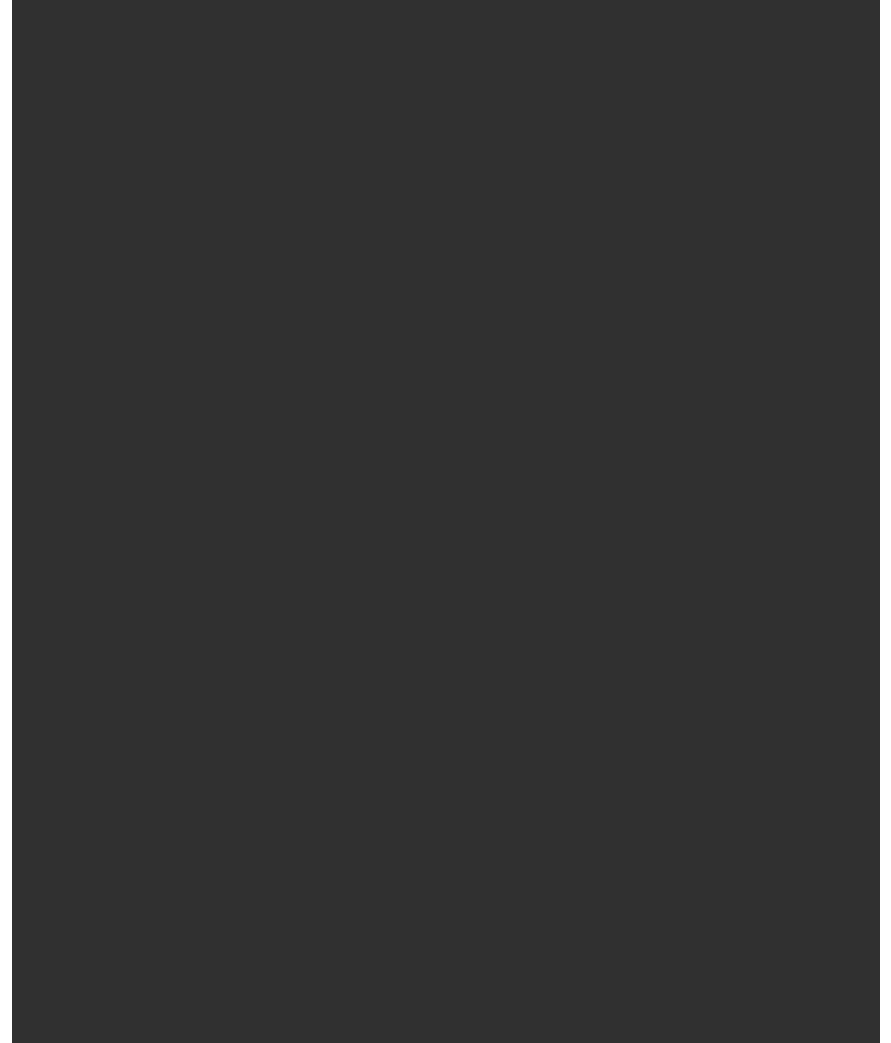
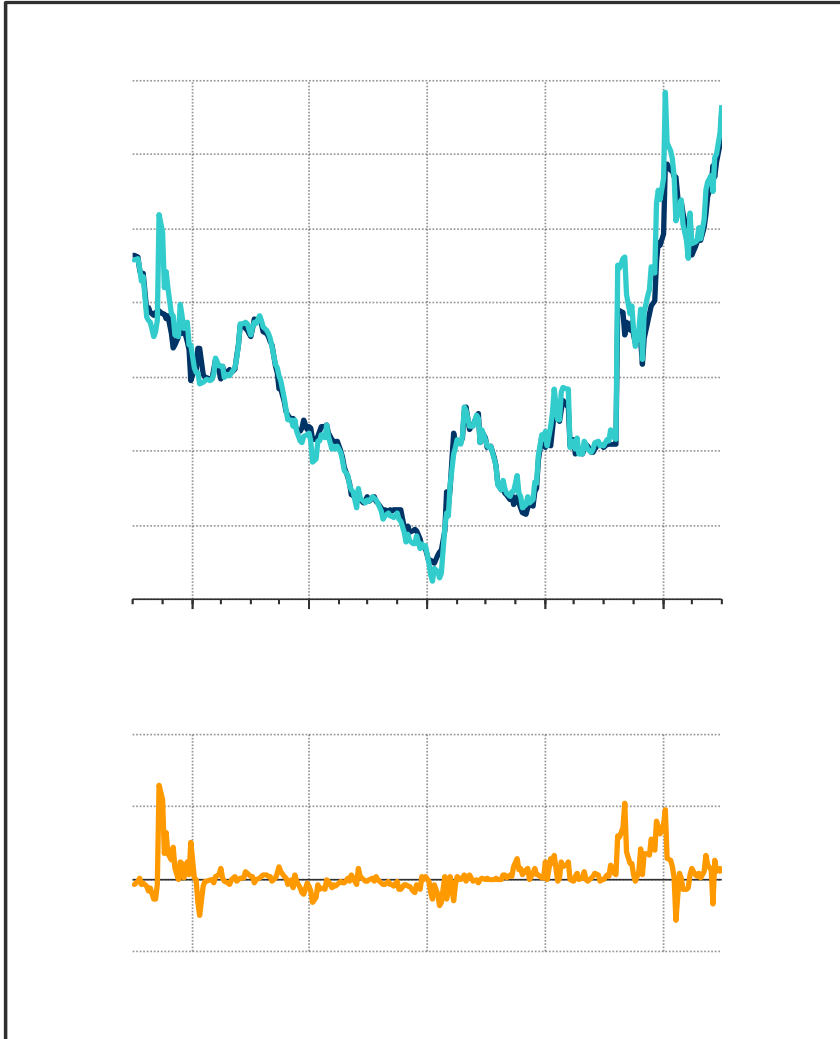
- Restricted circulation outside China
- Rising, but still limited use in international trade
- An ‘immature creditor’
- The dollar trap

“Great nations have great currencies”

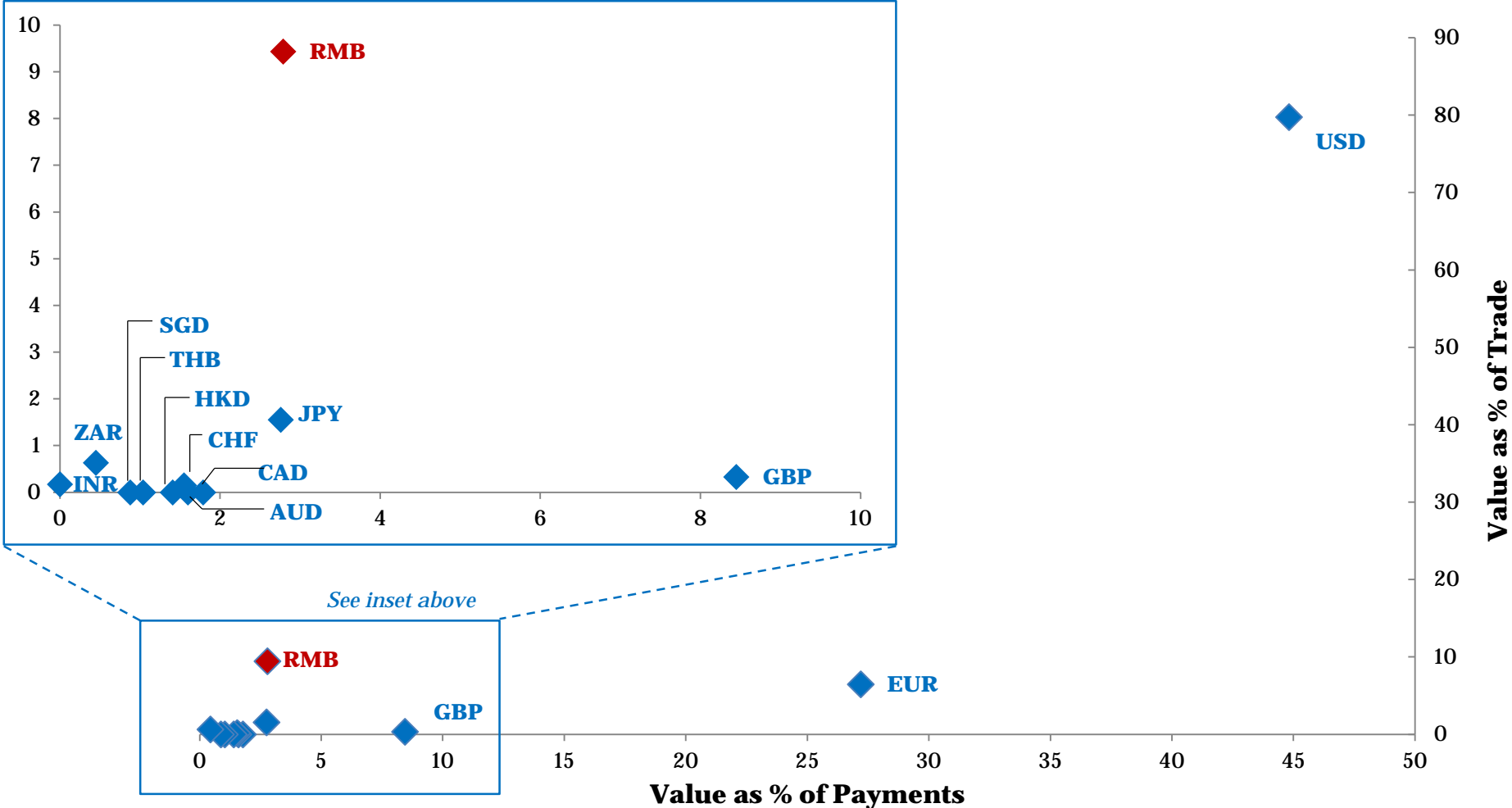
Building a market for the renminbi

- How to create an international currency
- Two-track strategy:
 - RMB-trade settlement scheme
 - offshore market
- Constraints on capital account convertibility
- Beyond the offshore market

Betting on the renminbi



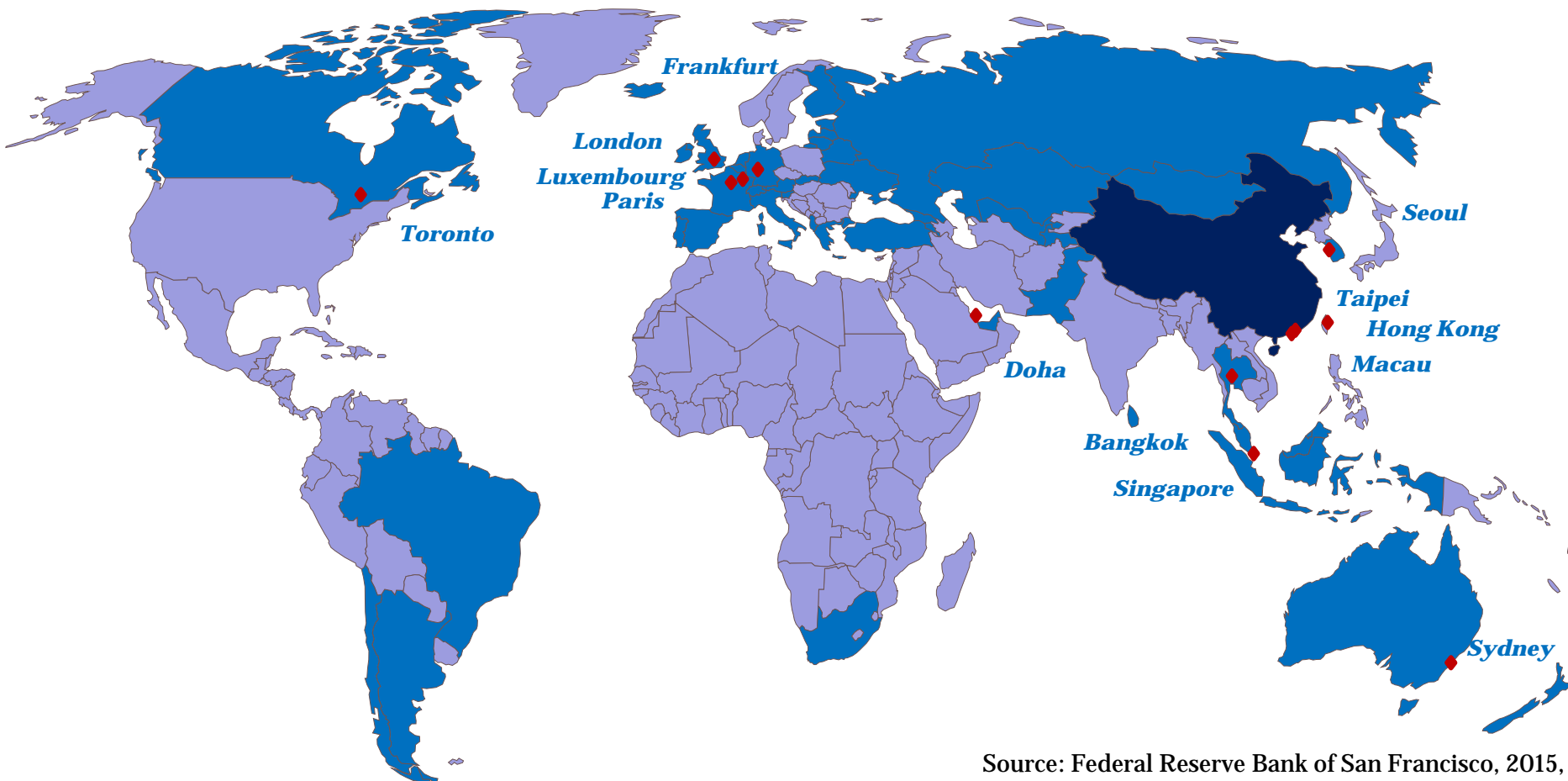
The RMB is 2nd most used currency in trade settlement



Source: SWIFT, 2015

Overview of the RMB offshore market

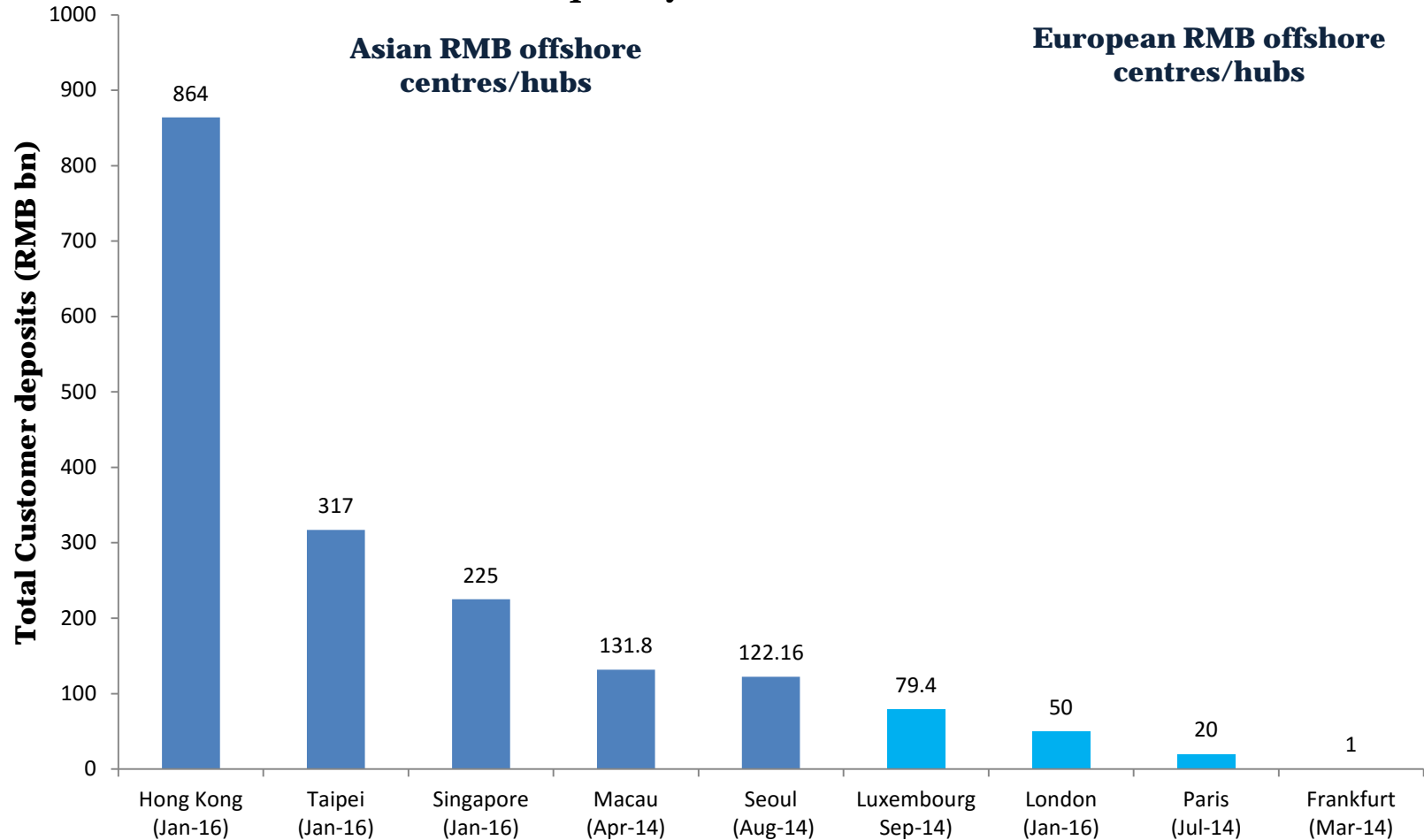
Over 35 bilateral currency swap agreements, including with the ECB ■
12 Offshore RMB centres plus Hong Kong ◆



Source: Federal Reserve Bank of San Francisco, 2015, Chatham House

Major financial centres in the RMB offshore market

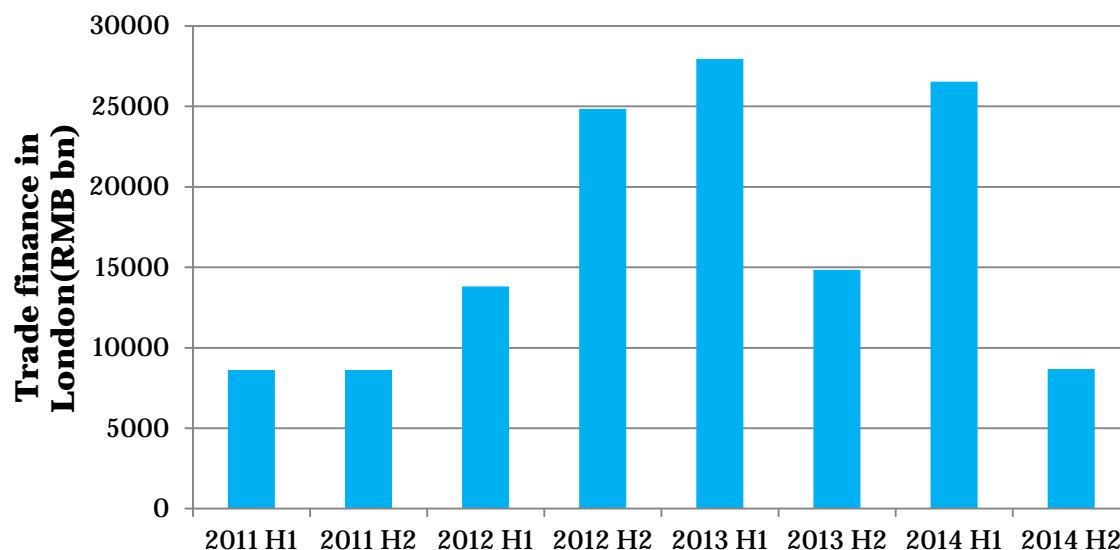
Global stock of offshore RMB liquidity in different financial centres



Source: Chatham House

London: RMB trade and trade finance

- The UK is one of China's most important trading partners in Europe.
- Total trade between the UK and China reached USD 83 billion 2014, ranked the second after Germany and accounted for 14% of total goods trade between China and the EU.
- The value of RMB trade finance business in London reached a high of about RMB 43 billion in 2013.
- Project finance may be the next area of growth; In 2014, CIC estimated China could invest £105bn in UK infrastructure projects by 2025



Source: Bourse Consult - City of London, 2015

The way forward: ‘managed convertibility’

- China is not ready for financial opening up
 - reforming the banking and financial system will take long time
- ‘Managed convertibility’ is, and will continue to be the default mode
 - a system of quotas – R-QFI etc
 - free trade zones
 - direct channels to China’s stock exchanges

The age of Chinese money

- A regional or an international currency?
- The renminbi and the dollar
- The renminbi and the international monetary system

Forthcoming book:

The People's Money

How China Is Building a Global Currency

Paola Subacchi

"Paola Subacchi brings a wealth of knowledge of China's economy and politics to this fascinating and informative exploration of China's currency, considering how the economic giant will develop its 'renminbi strategy' and take its proper place on the world's financial stage at a time of instability, economic slowdown, and domestic social tension."

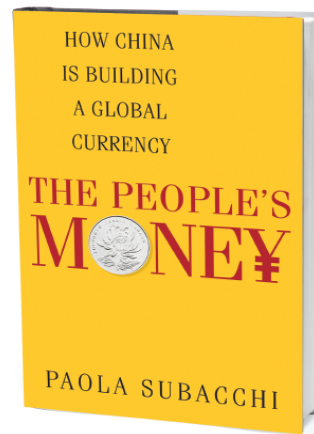
—Diane Coyle, author of *GDP: A Brief but Affectionate History*

"*The People's Money* may be the most detailed and comprehensive English-language account so far of China's efforts to pursue the internationalization of the renminbi. In this balanced and deeply-informed narrative, Paola Subacchi details the progress made—and the problems encountered—as the Chinese leadership strives to increase the global appeal of the renminbi."

—Yu Yongding, former president of the China Society of World Economics

Many of the world's major economies boast dominant international currencies. Not so for China. Its renminbi has lagged far behind the pound, the euro, and the dollar in global circulation—and for good reason. China has long privileged economic policies that have fueled development at the expense of the renminbi's growth, and it has become clear that the underpowered currency is threatening China's future. The nation's leaders now face the daunting task of strengthening the currency without losing control of the nation's economy or risking total collapse. How are they approaching this challenge?

In *The People's Money*, Paola Subacchi introduces readers to China's monetary system, mapping its evolution over the past century and, particularly, its transformation since Deng Xiaoping took power in 1978. Subacchi revisits the policies that fostered the country's economic rise while at the same time purposefully creating a currency of little use beyond China's borders. She shows the key to understanding China's economic predicament lies in past and future strategies for the renminbi. The financial turbulence following the global crisis of 2008, coupled with China's ambitions as a global creditor and chief economic power, has forced the nation to reckon with the limited international circulation of the renminbi. Increasing the currency's reach will play a major role in securing China's future.



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