Persisting Challenges: What G20 and BRICS Actions are Needed?

Currency in Progress and Governance in Transition: China and the Renminbi[1]

P. Subacchi

Paola Subacchi – International Economics, Chatham House; 10 St James's Square, London SW1Y 4LE; E-mail: psubacchi@chathamhouse.org

Abstract

In November 2008 the G20 became the premier forum for international economic and financial affairs. As a result, the international monetary system has come to reflect the transformation of the global economy brought about by China's emergence as the second largest economy and major exporter, and by the related limits of international governance, especially of the so-called Bretton Woods institutions. This article argues that Zhou Xiaochuan, governor of the People's Bank of China, started an international debate about the shortfalls of the international monetary system in March 2009, after which China pursued the internationalization of its own currency, the renminbi, to turn it into one of the key international currencies. To this purpose, China has put together a policy framework that facilitates the international use of the renminbi without opening domestic capital markets – a requisite for a fully convertible international currency. This article discusses the renminbi's trajectory over the last five years and suggests that it has become more regionalized rather than internationalized. It also discusses the challenges that Chinese authorities experience as they try to put the renminbi in the pockets of foreign investors and at the same time maintain control – "managed convertibility" – of capital flows in and out of the domestic market. The article concludes that the decision to include the renminbi in the International Monetary Fund's basket for its special drawing rights reflects expectations that the international monetary system will shift from a dollar-dominated to a multi-currency system. However, this will take several years; in the meantime, international governance will continue to reflect the influences of the issuers of the key international currencies.

Key words: international monetary system; renminbi; dollar; China; governance; G20; economic reforms

For citation: Subacchi P. (2017) Currency in Progress and Governance in Transition: China and the Renminbi. *International Organisations Research Journal*, vol. 12, no 2, pp. 129–145 (in Russian and English). DOI: 10. 17323/1996-7845-2017-02-129

[1] The editorial board received the article in November 2016.

Introduction

Reform of the international monetary system has been at the core of the G20's work since October 2008 when, in the aftermath of the global financial crisis, France's President Nicolas Sarkozy and Britain's Prime Minister Gordon Brown called for a "new Bretton Woods" agreement to underpin global financial rules and address the shortfalls of the international monetary system [Helleiner, 2010, p. 619; Subacchi, 2010b, p. 665]. Zhou Xiaochuan, governor of the People's Bank of China, made China's position explicit in March 2009 just a few weeks before the G20 summit in London. In a widely reported speech Zhou [2009] highlighted the dependency of the international monetary system on a single key currency – the dollar. The risk with such a system, he argued, is that the domestic policy priorities of the country issuing the key currency are not always aligned with the goals of preserving the value of the currency or maintaining liquidity for international trade and financial transactions. Zhou concluded that the international monetary system should be reformed with a supranational currency as the international reserve currency.[2]

Zhou did not further develop his suggestion, nor did he offer specific recommendations for a supranational currency. His intervention, however, proved to be seminal for two reasons. First, it raised the issue of whether the existing international monetary system would be able to respond to the new dynamics of a world economy in which the share of emerging markets and developing countries was larger than it had been 30 years earlier and was still growing. As would become apparent through the work of the G20, this question is ultimately related to matters of governance rather than the functioning of the international monetary system.

Second, Zhou also stressed the need to reduce China's dependency on the dollar. The dollar has been important for China's economic development as the key vehicle currency used in the international payment system and as a store of value. In fact, the dollar is the currency used to price and settle most of China's trade. It is also the currency in which most international assets are held, and China currently holds official reserves of more than $3 trillion. This holding, which peaked at $4.2 trillion in 2014, was particularly problematic at the time of Zhou's intervention – as the dollar weakened against China's currency, China faced the risk of holding a depreciating asset. This context informed Zhou's view that China should reduce this dependency by developing the international use of its own renminbi.

This article develops the argument that with the internationalization of its currency China is slowly becoming part of an international monetary system which Chinese leadership sees as evolving toward a multi-currency system. The first part discusses the features of the international monetary system and highlights the anomaly of China's development as a large trading country without an international currency. The second

[2] Zhou Xiaochuan called for international adoption of "an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run" in the international monetary system.

part examines how China has tried to overcome the limitations of the renminbi by establishing a policy framework to develop its international use. An examination of the renminbi's trajectory in the last five years suggests that it has become more regionalized rather than internationalized. This part also discusses the challenges that Chinese authorities have faced putting the renminbi in the pockets of foreign investors while at the same time trying to maintain control – "managed convertibility" – of capital flows in and out the domestic market. The third part examines the implications of China's renminbi strategy for global economic governance and concludes that the decision to include the renminbi as one of the currencies for the special drawing rights (SDR) of the International Monetary Fund (IMF) reflects expectations that the international monetary system will transition from a dollar-dominated to a multi-currency system.

The International Monetary System in Transition

The Dollar and the International Monetary System

The dominance of the dollar in the international monetary system goes back a long way. One year before the conference at Bretton Woods that created the system that would underpin post-war recovery, American negotiators understood that the dollar would "probably become the cornerstone of the postwar structure of stable currencies" [quoted in James, 2014, p. 47]. In 1944, the participants at Bretton Woods agreed to peg their currencies to the dollar and to prevent them from appreciating or depreciating more than 1%. The idea was to use the dollar to maintain the liquidity of the international monetary system, to anchor its value to the gold reserves of the United States and, at least in theory, to make it convertible into gold at the rate of $35 an ounce.

The Bretton Woods system worked well in the post-war years, but presented an intrinsic problem – a "dilemma" to quote Belgian economist Robert Triffin – in the form of two inconsistent objectives. The first of these was the need to ensure liquidity in the world economy even though there was a risk for the country issuing the key reserve currency of running a large current account deficit. The second was the need to maintain the value of the key reserve currency. At the end of the 1950s, as the U.S. current account deficit began to grow in response to the domestic priorities of the U.S. administration, the challenge of maintaining confidence in the dollar became apparent.[3] This contradiction remains at the core of the current international monetary system, as Zhou Xiaochuan suggested in his speech in 2009.

As other countries within the Bretton Woods system – notably Germany, France and Japan – were not willing to allow their currencies to appreciate so that the United States could reduce its current account deficit, it continued to grow and confidence in the dollar continued to sink. This was especially the case in the late 1960s as the United States was issuing dollars to finance its large deficit [Cohen, 2001, p. 98]. The contradiction became unsustainable by August 1971, and as a result the United States

[3] This, however, is not a necessary condition.

unilaterally suspended the convertibility of the dollar and brought the Bretton Woods system to an end. However, the dominance of the dollar was unchallenged by the collapse of Bretton Woods, and it has remained the pillar of the international monetary system in the post–Bretton Woods era. The dollar's "monetary hegemony" in today's world economy is even more striking considering that even though more countries actively participate in the world economy today than was the case just 30 years ago, the international monetary system has not intrinsically changed and continues to revolve around the dollar.

The dollar's continued success can be largely explained as the combined result of habits, network externalities and inertia. The extensive use of the dollar internationally has prevented other currencies from developing their networks sufficiently to challenge its dominance. Furthermore, the size of the U.S. economy, its liquid and well-diversified financial markets, solid public institutions and effective legal system combine to make the dollar an attractive currency for non-U.S. residents looking for a stable and safe haven from financial shocks and geo-political risks. As a result, foreign governments, firms and individuals have continued to hold dollars despite various ups and downs [Prasad, 2014].

International Trade and the Dollar

The link between a country's economic development and its international standing has always been reflected in the world of currencies. Countries that are economically integrated at the regional or global level and have well-functioning and relatively open market economies tend to have international currencies. These are liquid currencies that are freely available and can, in principle, be used in trade and finance. Before the dollar, the pound sterling was the world's key currency. This reflected Britain's prominence as the largest economy – it accounted for 8% of total world gross domestic product (GDP) in the late 19th century and was the dominant player in international trade, the key international financial centre and the geo-political superpower [Cassis, 2006, p. 61].[4]

The intertwined development of a country's economy and its currency illustrates the incongruity of China's development. Like 19th-century Britain, China is the world's largest trading country and a superpower in geo-political terms. Unlike Britain, however, it does not have a currency that reflects and complements its rise on the international scene. In today's multipolar world economy the relative weight of the United States has been reduced while that of China and other developing countries has increased. In this context, China's lack of an international currency is as incongruous as the dollar's "monetary hegemony" is anomalous [Subacchi, 2017].

[4] This includes the British colonies. Otherwise China under the Qing dynasty was the world's largest economy and remained so until 1900, when it was superseded by the United States. GDP is measured in 1990 international Geary-Khamis dollars [Maddison, 2007].

China's Link to the Dollar

China experiences the constraints arising from its lack of an international currency, and resulting overexposure to the dollar, more intensely than other emerging and developing countries. China is now the world's biggest exporter and second largest economy, with just over 10% of the global GDP. It is ahead of Japan, which accounts for approximately 8% of the global GDP. The United States – the world's largest economy – accounts for just over 21% of the world economy's total size.[5] Yet China does not have a currency that reflects its role in the world economy. The renminbi is a currency with limited circulation outside China and limited liquidity.

The international use of the renminbi as a means of exchange, unit of account and store of value – i.e., the functions that an international currency is expected to perform (for both residents and non-residents) – is restricted by its limited convertibly.[6] Because it cannot be converted easily into other currencies nor used easily to pay for goods and services outside China, individuals and institutions inside and outside China are not keen to accept or hold the renminbi.

In the early 2000s, the authorities tried to address this issue by lifting all restrictions on the circulation of capital resulting from trade transactions, including payments and dividend payments for the import and export of goods and services that were fully liberalized in 2007. In addition there has been a process of gradually opening up the capital account through the liberalization of long-term and direct flows as opposed to short-term and indirect flows [Gao and Yu, 2009, pp. 8–9]. This process is still ongoing and China is now in a situation of "managed convertibility" in which the monetary authorities continue to control capital flows from and into the domestic market in order to shelter the most vulnerable domestic sectors from external shocks and so continue the gradual liberalization of capital movements [Zhou, 2015].

Without a currency that can easily be used internationally, the dollar remains the cornerstone of China's trade and financial relations. But there are costs associated with using the dollar for settling transactions with the rest of the world and for edging the associated exchange rate risks. For example, businesses that import and export goods and services face the challenge of minimizing the differentials between the price quoted in dollars and the amount in the local currency used to pay local costs such as rents, interests on loans, wages and utility bills.

Another problem that firms face is that liabilities (e.g., foreign direct investment held by foreigners) on China's international balance sheet are denominated in renminbi while claims on foreigners (e.g., official reserves) are denominated in major reserve currencies, and the dollar in particular.[7] This is problematic because when the dollar

---

[5] Figures for 2011 in current prices.

[6] More specifically, an international currency can be used for private purpose as currency substitution, trade and financial transaction invoice and denomination. It can also be used for public purpose as official reserves, vehicle currency for foreign exchange intervention and anchor currency for pegging [Kenen, 1983; Chinn and Frankel, 2005].

[7] For imbalances on the international balance sheet [McKinnon and Schnabl, 2004].

depreciates against the renminbi China faces a loss as its liabilities increase in dollar terms whilst the claims remain the same. Finally, dependency on the dollar can become problematic in the event of a banking crisis in the United States, as happened in 2008 [McGuire and von Peter, 2009]. For countries such as China that are heavily involved in international trade, a dollar shortage can be extremely disruptive. This explains why Zhou Xiaochuan advocated the reform of the dollar-dominated international monetary system in favour of one that presents more choices – i.e., more than one dominant currency – or plenty of liquidity such as in the case of a supranational currency.

China's Renminbi Strategy

Finding a Policy Solution

For some time, Chinese authorities have been aware of the limitations on the use of their currency, China's over-reliance on the dollar and the potential losses on dollar holdings in China's foreign exchange reserves – a trend not reversed until late 2014. Since 2009, they have been working to address these limitations and to develop a partial, and to some extent temporary, response to the challenges posed by the renminbi's restricted international use. They have built this response on China's prominent position in the international trade system to create traction for the use of the renminbi to invoice and settle trade transactions.

China's strategic policy to internationalize the renminbi began in April 2009, when the Standing Committee of the State Council agreed to a plan to allow the use of the renminbi for pricing, invoicing and settling international trade transactions. The Chinese government launched a pilot scheme later that year to encourage the use of the renminbi to settle trade transactions with countries around China's border. The scheme's main objective was to test the waters for the use of the Chinese currency in regional trade and to encourage firms to use it to settle trade transactions [Gao and Yu, 2009, p. 15].[8] The scheme was expanded in June 2010 to cover 20 provinces and cities.[9] Since then the scheme has further evolved into a formal programme through which China's whole international trade can, in principle, be settled in renminbi.

Liquidity for the Renminbi

Use of the renminbi to invoice and settle trade is a necessary, but not sufficient condition to promote the currency's international use. A currency that is subject to restrictions on international financial transactions that limit its function as store of value

[8] Countries in the scheme were Hong Kong Special Administrative Unit Region (SAR), Macau SAR and members of the Association of Southeast Asian Nations (ASEAN). ASEAN members include Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Phillippines, Singapore, Thailand and Vietnam.

[9] Beijing, Tianjin, Inner Mongolia, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Guangxi, Hainan, Chongqing, Xichuan, Yunnan, Jilin, Heilongjiang, Xizang (Tibet) and Xinjiang.

is unlikely to become widely used. This is the case even when limited to trade in goods, because such trade still involves considerable elements of a purely financial nature such as hedging exchange rate risks [Genberg, 2009, p. 6]. If non-Chinese holders do not have the option to invest their renminbi in financial and non-financial activities, then their cost to hold renminbi is high. This is because they cannot earn interest by trading renminbi on capital markets and because they would not be able to dump their renminbi holdings and switch to other currency assets in a timely manner if the currency depreciates.

A few months after the launch of the renminbi trade settlement scheme, Chinese monetary authorities realized how difficult it was to internationalize a currency with restricted convertibility. By then they had become aware that policy intervention was required to support the internationalization of the currency. Otherwise, the limited liberalization of long-term capital flows was likely to constrain the international use of the renminbi for years to come, even if for just trade transactions. In order to overcome the constraints resulting from the currency's limited convertibility and to ensure that renminbi were available outside China, they concluded that a market for renminbi-denominated assets must be created. In other words, incentives needed to be created and a new system had to be put in place to generate renminbi liquidity in the international payment system. Liquidity was indeed the key condition for foreigners to happily and willingly hold renminbi despite the existing restrictions [Subacchi, 2010a].

Chinese authorities opted not to follow the same route taken by Japan in the 1980s that would have involved opening the capital account to create enough liquidity for the renminbi. Without a thorough reform of the domestic banking and financial sectors and increased flexibility in the exchange rate regime, the risk of exchange rate shocks and the adverse impact on the domestic financial system of unmanaged capital flows would be too high. The abolition of capital controls was not in the cards.

Chinese policymakers instead began to experiment with the idea of developing a special market, separate from the domestic one, in which the renminbi and renminbi-denominated assets could be freely traded. This market would need to be liquid, and would require a robust infrastructure, trustworthy institutions and credible regulations. It would also require the right mix of skills to eventually develop new products and to establish a renminbi-denominated debt market. This market would help the accumulation of renminbi funds for investments and loans. For instance, Chinese companies could raise capital in this market and then use such capital for their overseas investments, or repatriate it to invest domestically under the authorities' control.

The Offshore Solution for the Renminbi

To overcome the limitations that capital controls created for the renminbi, Chinese authorities decided to develop an offshore market in which the renminbi would be traded without restriction. The idea was to create a market for foreigners in which they could use the renminbi for trade and investment transactions and hold renminbi funds.

These funds could be moved to and from mainland China through complex schemes that provided, at least in theory, a mechanism to control capital movements and reduce the risk of financial instability. Chinese monetary authorities thought that moving these transactions offshore would protect the onshore market in mainland China from undesired and potentially destabilizing capital movements that could undermine domestic financial stability. Thus, they began to develop a series of policies, parallel to the trade settlement scheme, in order to build a pool of liquidity outside mainland China [He and McCauley, 2010; Ma and Yao, 2016].

The development of the offshore market as a parallel but separate market for currency set the conditions for increased international use of the renminbi as a financial asset while allowing China's monetary authorities to maintain control over both capital movements into the domestic (or onshore) market and the pace of the capital account liberalization [He and McCauley, 2010]. The provision of essential clearing and settlement services for the renminbi would help increase the scale of its circulation and facilitate the development of China's financial markets. The existence of an offshore market was therefore deemed necessary in order to increase the utility of the currency beyond a limited range of transactions and to establish it as an asset to store wealth for non-resident firms and individuals [He and McCauley, 2010].

The renminbi cross-border trade settlement and the development of the renminbi offshore market have emerged as two complementary aspects of China's renminbi strategy. This can be described as a two-track approach, with measures specifically designed for each track [Subacchi, 2010a]. The goal of the first track is to increase the use of the renminbi in international trade and promote the use of the renminbi as an invoicing currency for trade. The second track aims to create an offshore market for renminbi-denominated assets, which avoids forcing a premature opening of China's capital account and helps manage the currency convertibility.

These two tracks are parallel and mutually reinforcing. The cross-border trade settlement feeds the offshore market because the proceeds of trade can be held in bank deposits or even in renminbi-denominated assets in the offshore market. The development of the renminbi offshore market, at the same time, provides a way for non-residents to invest renminbi earned through trade outside China. In turn, these offshore renminbi feed and expand the liquidity pool of the offshore market. In addition, as the debt market denominated in renminbi develops offshore, funds raised offshore can be channelled into productive activities that will result in more trade and, potentially, more renminbi used in trade transactions. Having viable options to hold renminbi would, then, encourage more foreign firms to use renminbi to settle trade transactions with China.

The key point here is that within this policy framework the renminbi can be used internationally under controlled conditions. Through the development of the offshore market Chinese monetary authorities can retain control of capital flows in and out of the country, and can protect China's banking and financial system from sudden changes in the direction of capital flows in the event of uncontrollable events and shocks. In the view of the authorities, this strategy provides traction for the cross-border use of the renminbi without undermining China's financial stability. However, they are aware that as long as restrictions on capital flows stay in place, the international use of the renminbi will be limited in scale and scope because the offshore market cannot act as a complete substitute for a currency's convertibility.

The Impact So Far

Five years after its launch, China's renminbi strategy appears to have been successful on many counts. First, there has been an increase in the international use of the currency without fully liberalizing capital movements. More than 20% of China's imports and exports are now settled in renminbi, compared with 2% in 2010 and zero in 2009. The renminbi is now the world's sixth most used currency in international payments, ahead of the Australian dollar and the Swiss franc, with a share in world payments of approximately 1.6% [SWIFT, 2016]. The renminbi offshore market has also grown rapidly. The outstanding stock of total renminbi lending in Hong Kong is approximately 35% of total lending, equivalent to approximately a half-trillion renminbi. The stock of outstanding renminbi liquidity in Hong Kong (customer deposits plus negotiable certificates of deposit) is more than one trillion renminbi, while the daily average turnover of renminbi foreign exchange trades is more than 700 billion renminbi.

This development, however, has been mainly regional, with the renminbi being used extensively only in the Asia-Pacific region [Subacchi, 2017, pp. 174–76]. Moreover, the use of the renminbi in trade has been much more significant than the increase in the demand for renminbi-denominated assets. Offshore bank deposits are a mere 1.5% of the total renminbi deposits; loans are tiny (about 188 billion renminbi) compared with the international banking liabilities denominated in dollars, euros, sterling and yen. At 0.5% of the world total, the renminbi offshore bond market trails behind the dollar-denominated market (40% of the total), the euro-denominated market (41%), and even the sterling and yen (almost 10% and 2% respectively) markets. The renminbi accounts only for between 0.6 and 1% of global foreign exchange reserves held by central banks while the dollar and the euro have 62 and 23% respectively of total official reserve holdings [IMF, 2017].

The largest and most diversified offshore markets for the renminbi are in Asia – Hong Kong, Singapore and Taipei. The size and scale of the renminbi offshore market, however, remains quite limited despite its centrality to the process of internationalizing the renminbi. Despite the relatively strong adoption of the renminbi in the Asia-Pacific region, the use of the renminbi has developed at a much slower pace in other regions and in emerging countries, such as South Africa and Brazil. It is therefore more appropriate to talk about currency regionalization rather than internationalization.

This outcome is in line with the objectives of the pilot scheme to build renminbi circulation in the Greater China region and surrounding areas [Seade, Lin, Ma et al., 2010] and it is consistent with China's position both as the centre of East Asia's production network and as the key hub within the regional supply chain. China trades about $1.4 trillion a year in goods (by volume) with neighbouring countries. About

22% of its manufacturing trade is now with east Asian countries, compared to only 2% in 1991. China is also the largest trade partner for some countries in the region. For instance, 20% of Vietnam's trade is with China, while Vietnam accounts for less than 1% of China's trade.[10] As a result seven out of ten countries in the East Asia region – including South Korea, Indonesia, Malaysia, Singapore and Thailand – have been tracking the renminbi more closely than the dollar in the past three years [Subramanian and Kessler, 2013].

China's renminbi strategy has provided a framework for what was previously a de facto circulation of the currency in the region. Through this framework adequate banking channels have been created to facilitate the use of the renminbi in regional trade. This is good, but on its own it has not transformed the renminbi into a fully functioning international currency due to the existing restrictions on the movement of money in and out of China. The cross-border renminbi trade settlement scheme operates functionally to provide the essential source of liquidity to the renminbi offshore market, and this should drive market participants to use the renminbi.

China's Renminbi Strategy and International Economic Governance

A Gradual Policy Approach

The "renminbi strategy" is a complex initiative that needs long-term planning, a series of gradual steps, the ability to anticipate market reaction, and also to foresee its short-term and long-term impact both domestically and internationally. In addition, the internationalization of the renminbi is part of China's overall monetary and financial reform, and should be assessed in this context. In fact, the renminbi will become a fully fledged international currency when China is able to fully open its capital account. However, until governance of state-owned companies and banks can be improved to bring them in line with international standards of governance and transparency, Chinese monetary authorities will continue to manage the convertibility of the renminbi and retain control of the domestic capital market.

The Chinese authorities' careful approach also reflects the novelty of their aims and methods. No other nation has ever put so much effort in developing the international use of the domestic currency through a consistent and sequenced set of policies designed to overcome existing and, for the time being at least, irremovable constraints. There is ample scope for policy experimentation – and the challenges are considerable.

Establishing the credibility and international reputation of the renminbi, and making it acceptable in those parts of the world economy where the dollar dominates, will

[10] The discrepancy in the trade balance is primarily due to the types of products that each country produces. The majority of Vietnam's exports are either raw materials or low value-added manufactured goods, such as coal, crude oil, rubber, seafood and footwear. In comparison, the top products China exports to Vietnam are value-added manufactured goods such as machinery, pharmaceuticals and petroleum.

take years. The People's Bank of China is well aware of the difficulties inherent in the internationalization of its currency. For this reason, Beijing is cautious in its assessment of the chances of success and wants to avoid creating unreasonable expectations. In addition, Chinese authorities face the issue of managing the convertibility of the renminbi. This means they must allow access to the domestic market to encourage foreigners to hold renminbi, while at the same time avoiding domestic financial instability – a development that could have significant spillovers for the rest of the world. Finally, as the economy slows down in response to the shift in China's model of growth, among other things, policy makers will have to ensure that foreigners see the renminbi as an attractive currency to hold.

An International Currency in Progress

What are the implications of China's renminbi strategy for the international monetary system? Chinese monetary authorities have offered several visions for the future development of their currency, but they have not shared any details about how the renminbi should develop within the international monetary system. Both the 12th and the 13th Five-Year Plans stress the importance of the renminbi's continuing development and the need to reform China's banks, but they are relatively silent regarding the international context for the development of the renminbi.

However, the importance given to the inclusion of the renminbi into the SDR basket – the IMF's reserve currency and a proxy for the international monetary system – suggests that Chinese leadership sees China's currency as part of a multi-currency international monetary system.[11] By putting the renminbi together with the dollar, the euro, the yen and the pound the IMF executive board has cemented the de facto role that China has been playing in the world economy.

Despite this recognition, the renminbi remains an international currency in progress, and this sets it apart from the other components of the SDR basket, in the same way that China, unlike the other issuers of currencies in the basket, is an economic and financial power in progress. Its prowess in international trade, for instance, is not matched by a similar standing in international finance. Like most developing countries, China is an "immature creditor" that lends mainly in dollars [McKinnon and Schnabl, 2014, p. 13]. Moreover, were China to borrow in international markets it would have to issue most of its debt in dollars. Like other developing countries it suffers from the "original sin" of not being able to issue its debt in its own currency.

But unlike other developing countries, even large countries such as Brazil, India and Russia, China is a huge economy that can provide critical mass to the development of its currency. In addition, Chinese leadership is determined to move forward with reform, especially of the banking sector and state-owned enterprises, to support this development. There is therefore the sense that the renminbi will eventually become a key currency in the world economy and international finance. Nobody can say exactly

[11] The inclusion was formalized in December 2015 and implemented in October 2016.

when, but at the same time, nobody can rule it out. Christine Lagarde, the managing director of the IMF, captured this widespread feeling: "it is not if, but when."

Chinese authorities are clear that the next five years are going to be critical to cement and grow the renminbi's status as an international currency and to narrow the gap with the currencies of the other "great nations." But the steady growth of the renminbi in regional trade seems no longer what the authorities envisage going forward. As China has become more assertive in geo-political terms, a path will be carved for the renminbi to assume a more decisive role in the international monetary system.

China's renminbi strategy will continue to be driven by economic pragmatism. Chinese authorities see breaking the dominance of the dollar and having a more diversified and therefore more liquid international monetary system as a step towards a more balanced and less volatile system. To turn the renminbi into the dominant international currency by replacing the dollar does not seem to be in their plan. Instead, they are keen to eventually see the renminbi as one of the key currencies in a multi-currency international monetary system.

China, the G20 and International Economic Governance

Being one of the currencies in this multi-currency system (and one of the players in this new governance structure) is what China desires for the renminbi (and for itself). Having a key international currency would entitle China to a key role in new structures of economic governance. As the international role of the renminbi expands to reflect the size of the Chinese economy and the extension and scope of its trade, this inevitably has an impact on the international monetary system. However, rather than challenging the dominance of the dollar, the shift towards a multi-currency international monetary system, as is now reflected in the composition of the SDR basket, underscores the fundamental shift in governance marked by the elevation of the G20 from the finance ministers' gathering to the leaders' forum in the aftermath of the global financial crisis.

With the renminbi as part of the SDR basket, China has closed the gap between its aspiration of being a great nation and the limitation, not to say the embarrassment, of not having a great currency – as Robert Mundell [1993] stated, "great nations have great currencies." This decision also carries implications for the role that China has been playing and will continue to play in the governance of the international monetary system and related institutions such as the IMF.

However, having achieved its goals for the renminbi – goals which had been central to China's economic policy from 2010–2015 – China's involvement in international economic governance has now been put on the back burner. For example, expectations of a more robust approach to the governance of international financial institution during China's presidency of the G20 in 2016 were not met. China excelled at keeping the G20 process on track and there were some significant achievements, especially in the area of green finance. But China did not raise governance issues reflective of China's growing role in the international monetary system. Before December 2015, China was in a hurry to carve out a defined role for itself in the changing world economic and geo-political order, and the renminbi became the tool and also the symbol of China's new role in the world economy. However, China is now taking a break to focus on shifting its model of economic growth and making adjustments to its domestic economy. China's major international initiative, the One Belt and Road, covers a large region that crosses over Asia and Europe but it is nevertheless fundamentally regional. This is where the renminbi has developed most and where it stands the best chances for its future development [Subacchi, 2017]. The regional dimension of governance involves the Asian Infrastructure Investment Bank and the New Development Bank, with which China is most comfortable.

The limits of the renminbi as an international currency not only reflect the scale and scope of China's involvement in international governance, but underscore the intrinsic constraints of the G20 as the premier forum for the world economy. While this is an accurate description of the G20 in terms of world GDP – the G20 member states together cover about 80% – it is less so when it comes to financial and monetary relations. Here, the members of the Group of Seven (G7), being the issuers of the key international currencies – dollars, euros, yen and sterling – hold the key to any discussion and decision on monetary policies, currencies and financial regulations, notwithstanding that the G20 has hugely contributed to reforms of the global financial architecture.

The renminbi is an immature international currency with, at best, only a regional dimension. However, it helps to maintain the divide between the G7 as the club of the advanced economies and the G20 as the forum for the developed and the emerging countries. If the G20 recognizes the fact that the dynamics of the world economy have changed in the last twenty years and emerging market economies (not necessarily in the U.S. orbit of geopolitical influence) have come to the fore, this will have been a significant achievement in global governance, despite the fact that governance in monetary and financial affairs remains solidly in the hands of the issuers of the key currencies.

Conclusion

China has been working to develop the renminbi as an international currency. After an acceleration in 2010–2015, this process continues to pose many policy challenges. On many occasions China's authorities have indicated that they are not in a hurry to push the renminbi, in large part because this implies the huge task of reforming the domestic financial sector. Therefore, they will keep a foot on the brake. One thing, however, seems clear: China's leadership is not inclined to create a rival to the dollar. In its view the emergence of the renminbi as an international currency will provide more options and make the international monetary system less dependent on the dollar and therefore less vulnerable to liquidity crises. The endgame for Chinese monetary authorities is a multi-currency international monetary system. This in turn will reflect the shift in the balance of economic power and will account for the emergence of large and fast-developing economies such as China's. Our monetary future looks more fragmented, with more choices and governance challenges. None of the available options – the euro, the renminbi – is strong enough to become dominant. Together, however, they can break the de facto monopoly enjoyed by the dollar as the global currency.

But not yet. The renminbi remains a currency with limited circulation and the improvements since 2010 have been mainly regional. And China, as discussed, is conflicted vis-à-vis the trade-off that international currencies often face between domestic priorities and international "public goods." This makes governance a challenge for global governance, especially in forums such as the G20 [Bayoumi, Pickford and Subacchi, 2016]. Countries with large economies and currencies that circulate internationally and are held by non-residents sometimes embrace economic policies that have a positive domestic impact, but generate negative spillovers for others. An example of this is the "currency war" brought to the G20's attention by Brazil's finance minister as a consequence of unconventional U.S. monetary policy and quantitative easing measures implemented after the global financial crisis.

Going forward, the international monetary system will continue to evolve to reflect the changing world order and the emerging dynamics of the global economic order. China, and the renminbi, will continue to be part of this evolution. The international monetary system will also continue to reflect changes in the way transactions are carried out. Money no longer needs to be physically moved around; information can be sent instead. But the question of how to define and maintain value for fiat money will continue to dominate the policy debate for years to come. Ultimately it all depends on how people answer the question: "Whom do you trust?" Going forward, international governance will be essential to manage the transformation of the international monetary system.

References

Bayoumi, Tamim, Stephen Pickford and Paola Subacchi, eds. (2016). *Managing Complexity: Economic Policy Cooperation after the Crisis*. Washington DC: Brookings Institution.

Cassis, Youssef (2006). *Capitals of Capital: A History of International Financial Centres, 1780–2005*. Cambridge: Cambridge University Press.

Chinn, Menzie and Jeffrey Frankel (2005). "Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency?" NBER Working Paper Series No. 11510. Washington DC: National Bureau of Economic Research. doi: 10.3386/w11510.

Cohen, Benjamin (2001). "Bretton Woods System." In: R.J. Barry Jones, ed *Routledge Encyclopedia of International Political Economy*. London: Routledge. pp. 95–102.

Gao, Haihong and Yongding Yu (2009). "Internationalisation of the Renminbi." Paper prepared for the joint conference of the Bank of Korea and the Bank for International Settlements on on "Currency Internationalisation: Lessons from the Global Financial Crisis and Prospects for the Future in Asia and the Pacific», Seoul, 19–20 March. Available at: http://www.bis.org/repofficepubl/arpresearch200903.05.pdf (accessed March 2017).

Genberg, Hans (2009). "Currency Internationalisation: Analytical and Policy Issues." HKIMR Working Paper No. 31/2009, October. Hong Kong: Hong Kong Institute for Monetary Research. Available at: http://www.hkimr.org/uploads/publication/117/ub_full_0_2_226_wp-no-31_2009.pdf (accessed March 2017).

He, Dong and Robert Neil McCauley (2010). "Offshore Markets for the Domestic Currency: Monetary and Financial Stability Issues." BIS Working Papers No. 320, September. Basel: Bank for International Settlements. Available at: http://www.bis.org/publ/work320.pdf (accessed March 2017).

Helleiner, Eric (2010). "A Bretton Woods Moment? The 2007–2008 Crisis and the Future of Global Finance." *International Affairs* 86(3), pp. 619–36. doi: 10.1111/j.1468-2346.2010.00901.x.

International Monetary Fund (2017). "Currency Composition of Official Foreign Exchange Reserves (COFER)." Washington DC. Available at: http://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4 (accessed March 2017).

James, Harold (2014). "Cosmos, Chaos: Finance, Power and Conflict." *International Affairs* 90(1), pp. 37–57. Available at: http://wws.princeton.edu/system/files/research/documents/James_Cosmos%2C%20Chaos.pdf (accessed March 2017).

Kenen, Peter B. (1983). "The Role of the Dollar as an International Currency." Occasional Papers No. 13. New York: Group of 30. Available at: http://group30.org/images/uploads/publications/G30_RoleDollarIntlCurrency.pdf (accessed March 2017).

Ma, Gyonan and Wang Yao (2016). "Can the Chinese Bond Market Facilitate a Globalizing Renminbi?" BOFIT Discussion Paper No. 1/2016. Helsinki: Bank of Finland. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2733049 (accessed March 2017).

Maddison, Angus (2007). *The World Economy. Volume 2: Historical Statistics*. Paris: Organisation for Economic Co-operation and Development.

McGuire, Patrick and Goetz von Peter (2009). "The U.S. Dollar Shortage in Global Banking." *BIS Quarterly Review* March. Available at: http://www.bis.org/publ/qtrpdf/r_qt0903f.pdf (accessed March 2017).

McKinnon, Ronald and Gunther Schnabl (2004). "The East Asian Dollar Standard, Fear of Floating and Original Sin." *Review of Development Economics* 8(3), pp. 331–60. doi: 10.1111/j.1467-9361.2004.00237.x.

McKinnon, Ronald and Gunther Schnabl (2014). "China's Exchange Rate and Financial Repression: The Conflicted Emergence of the RMB as an International Currency." *China and World Economy* 22(3), pp. 1–35. doi: 10.1111/j.1749-124X.2014.12066.x.

Mundell, Robert (1993). "EMU and the International Monetary System: A Transatlantic Perspective." Working Paper No. 13. Vienna: Oesterreichische Nationalbank.

Prasad, Eswar (2014). *The Dollar Trap How the U.S. Dollar Tightened Its Grip on Global Finance*. Princeton: Princeton University Press.

Subacchi, Paola (2010a). "One Currency, Two Systems: China's Renminbi Strategy." Briefing Paper, October. London: Chatham House. Available at: https://www.chathamhouse.org/publications/papers/view/109498 (accessed March 2017).

Subacchi, Paola (2010b). "Who Is In Control of the International Monetary System?" *International Affairs* 86(3), pp. 665–80. doi: 10.1111/j.1468-2346.2010.00904.x.

Subacchi, Paola (2017). *The People's Money*. New York: Columbia University Press.

Subramanian, Arvind and Martin Kessler (2013). "The Renminbi Bloc Is Here: Asia Down, Rest of the World to Go?" WP 12-19, August. Washington DC: Peterson Institute for International Economics. Available at: https://piie.com/sites/default/files/publications/wp/wp12-19.pdf (accessed March 2017).

SWIFT (2016). "Euro Surpasses RMB in Traditional Trade Finance." La Hulpe, Belgium, 23 November. Available at: https://www.swift.com/node/46001 (accessed March 2017).

Zhou, Xiaochuan (2009). "Reform the International Monetary System." *BIS Review* 41. Available at: http://www.bis.org/review/r090402c.pdf (accessed March 2017).

Zhou, Xiaochuan (2015). "Statement to the 31st Meeting of the International Monetary and Financial Committee." 18 April. Washington DC: International Monetary and Financial Committee. Available at: https://www.imf.org/External/spring/2015/imfc/statement/eng/chn.pdf (accessed March 2017).

Развитие валюты и трансформация управления: Китай и юань[1]

П. Субаччи

Субаччи Паола – старший научный сотрудник, Королевский институт международных отношений (Chatham House); 10 St James's Square, London SW1Y 4LE, Великобритания; E-mail: psubacchi@chathamhouse.org

С тех пор как «Группа двадцати» стала форумом лидеров государств по экономическим и финансовым вопросам, т.е. с ноября 2008 г., развитие международной валютной системы отражает трансформацию глобальной экономики в результате получения Китаем статуса второй крупнейшей экономики в мире и статуса крупнейшего экспортера, а также из-за связанных с этим ограничений глобального управления, в особенности ограничений так называемых Бреттон-Вудских институтов. Согласно данной статье, после начала международной дискуссии о недостатках международной валютной системы, а именно после речи Чжоу Сяочуаня в марте 2009 г., Китай стал стремиться к интернационализации своей валюты, юаня, чтобы сделать ее одной из ключевых международных валют. В этих целях Китай разработал политику, направленную на облегчение международного использования юаня без полного открытия внутренних рынков капитала – условия полностью конвертабельной международной валюты. В статье показана траектория развития юаня в последние пять лет и сделан вывод о том, что юань стал скорее региональной, чем международной валютой. Рассмотрены ограничения, с которыми сталкиваются китайские власти, когда пытаются продвигать юань среди иностранных инвесторов, в то же время стремясь сохранить контроль – «управляемую конвертируемость» – над потоками капитала в страну и из страны. Автор приходит к выводу, что решение о включении юаня в корзину СДР МВФ символизирует ожидаемый эволюционный переход международной валютной системы от долларового доминирования к мультивалютной структуре. Тем не менее этот переход займет несколько лет, и в ближайшее время международное управление будет продолжать отражать влияние эмитентов ключевых международных валют.

Ключевые слова: международная валютная система; юань; доллар; Китай; управление; «Группа двадцати»; экономические реформы

Для цитирования: Субаччи П. Развитие валюты и трансформация управления: Китай и юань // Вестник международных организаций. 2017. Т. 12. № 2. С. 129–145. DOI: 10.17323/1996-7845-2017-02-129

Литература

Bayoumi T., Pickford S., Subacchi P. (eds) (2016) Managing Complexity. Economic Policy Cooperation after the Crisis. Washington DC: Brookings Institution Press.

Cassis Y. (2006) Capitals of Capital. Cambridge: Cambridge University Press.

Cohen B.J. (2001) Bretton Woods System // Routledge Encyclopedia of International Political Economy / R.J. Barry Jones (ed.). L.: Routledge. P. 95–102.

[1] Статья поступила в редакцию в ноябре 2016 г.

Cohen B.J. (2008) The International Monetary System: Diffusion and Ambiguity // International Affairs. Vol. 84. No. 3. P. 455–470.

Gao H., Yu Y. (2009) Internationalization of the Renminbi: Paper presented at BoK–BIS Seminar in Seoul, 19–20 March.

Genberg H. (2009) Currency Internationalisation: Analytical and Policy Issues. HKIMR Working Paper. No. 31 (October). Hong Kong Institute for Monetary Research.

He D., McCauley R.N. (2010) Offshore Markets for the Domestic Currency: Monetary and Financial Stability Issues. BIS Working Papers. No. 320. Basel: Bank for International Settlements.

Helleiner E. (2010) A Bretton Woods Moment? The 2007–2008 Crisis and the Future of Global Finance // International Affairs. Vol. 86. No. 3. P. 619–636.

James H. (2014) Cosmos, Chaos: Finance, Power and Conflict // International Affairs. Vol. 90. No. 1. P. 47.

Kenen P.B. (1983) The Role of the Dollar as an International Currency // Group of Thirty Occasional Papers. No. 13. N.Y..

Ma G., Yao W. (2015) Can the Chinese Bond Market Facilitate a Globalizing Renminbi? FGI working paper.

McGuire P., Peter G. von (2009) The US Dollar Shortage in Global Banking // BIS Quarterly Review. March. Режим доступа: http://www.bis.org/publ/qtrpdf/r_qt0903f.pdf (дата обращения: 02.12.2016).

McKinnon R., Schnabl G. (2004) The East Asian Dollar Standard, Fear of Floating, and Original Sin // Review of Development Economics. Vol. 8. No. 3. P. 331–360.

McKinnon R., Schnabl G. (2014) China's Exchange Rate and Financial Repression: The Conflicted Emergence of the RMB as an International Currency // China & World Economy. Vol. 22. No. 3.

Chinn M., Frankel J. (2005) Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency? // NBER Working Papers. No. 11510. National Bureau of Economic Research, Cambridge Mass.

Maddison A. (2007) The World Economy. Vol. 2: Historical Statistics. Paris: OECD Publishing.

Mundell R. (1993) EMU and the International Monetary System: A Transatlantic Perspective // Austrian National Bank Working Paper. No. 13. Vienna: Austrian National Bank.

Prasad E.S. (2014) The Dollar Trap. Princeton University Press.

Seade J., Lin P., Ma Y., Wei X., Zhang Y. (2010) Hong Kong as an International Financial Centre for China and the World (draft). Lingnan University, Department of Economics.

Subacchi P. (2017) The People's Money. N.Y.: Columbia University Press.

Subacchi P. (2010a) Who is in Control of the International Monetary System? // International Affairs. Vol. 86. No. 3. P. 665–680.

Subacchi P. (2010b) One Currency, Two Systems: China's Renminbi Strategy. Chatham House paper. L.: Chatham House.

Subramanian A., Kessler M. (2012) The Renminbi Bloc is Here: Asia Down, Rest of the World to Go? PIIE Working Paper Series 12–19. Washington DC: Peterson Institute of International Economics.

SWIFT (2016) Euro Surpasses RMB in Traditional Trade Finance. Режим доступа: https://www.swift.com/our–solutions/compliance–and–shared–services/business–intelligence/renminbi/rmb–tracker/document–centre#topic–tabs–menu (дата обращения: 05.12.2016).

Zhou X. (2009) Reforming the International Monetary System. BIS Central Banker's speech, 23 March.

Zhou X. (2015) Statement by the Honorable Zhou Xiaochuan, Governor of the IMF for China to the Thirty-First Meeting of the International Monetary and Financial Committee Washington, D.C., 18 April. Режим доступа: https://www.imf.org/External/spring/2015/imfc/statement/eng/chn.pdf (дата обращения: 5.12. 2016).