

# CHAPTER 1

## Introduction

### 1.1 Research Background

With implementation reformation and open policy in Third Plenary Session of the 11th Central Committee of the Chinese Communist Party in year 1983, China opened national gate to allow international trade. From that time, China economy began high-speed step. More and more trade amount and more and more factories were built in China. In year 2001, China succeeded to become a member of WTO (World Trade Organization), it means China is accepted by other members. China economic growth enhance very rapid after year 2001. With further reformation and open, 'Made in China' represents Chinese power. "Made in China" are everywhere.

World factory is another name of China. World factory helps China to export huge amounts products every year. Export is a support and energy of Chinese economy.

With outbreak of financial crisis in the year 2008, world economy was recession except China. European debt crisis caused world economy recession again after financial crisis. From now on, world economy entered a long period of recovery.

China economy keeps high growth all the time after reformation and open policy. China plays a more and more important role in international affairs.

Background of article bases on America economic recovery and China economic growth is slower than before. Asian Infrastructure Investment Bank (AIIB) was established last year and strategy of "Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road" (Belt and Road) implemented. CNY achieved condition of into IMF basket currencies. Exchange rate between CNY and USD continues to go up, USD's position is facing strict challenge. What will happen between China and USA? What are opportunities and challenges for CNY after internationalization? This is really interesting question about international finance.

## **1.2 The Problem to Be Investigated**

The problems which should be investigated include: What are GDP growth rate about China in recent. What are value of export for China in recent. What are the situations of inflation about China in recent. What are the exchange rate between CNY and others basket currencies. What is the currency system about China and what are currency policies about China. What are problems of currency system and policy. What are the forecasting data in the future?

## **1.3 The Objective of Study**

Objective of study is to further understand Chinses currency system and policies. Make a conclusion and give some related reasonable recommendations to perfect current system and policies. Further understand China economic situation.

## **1.4 The Scope of Study**

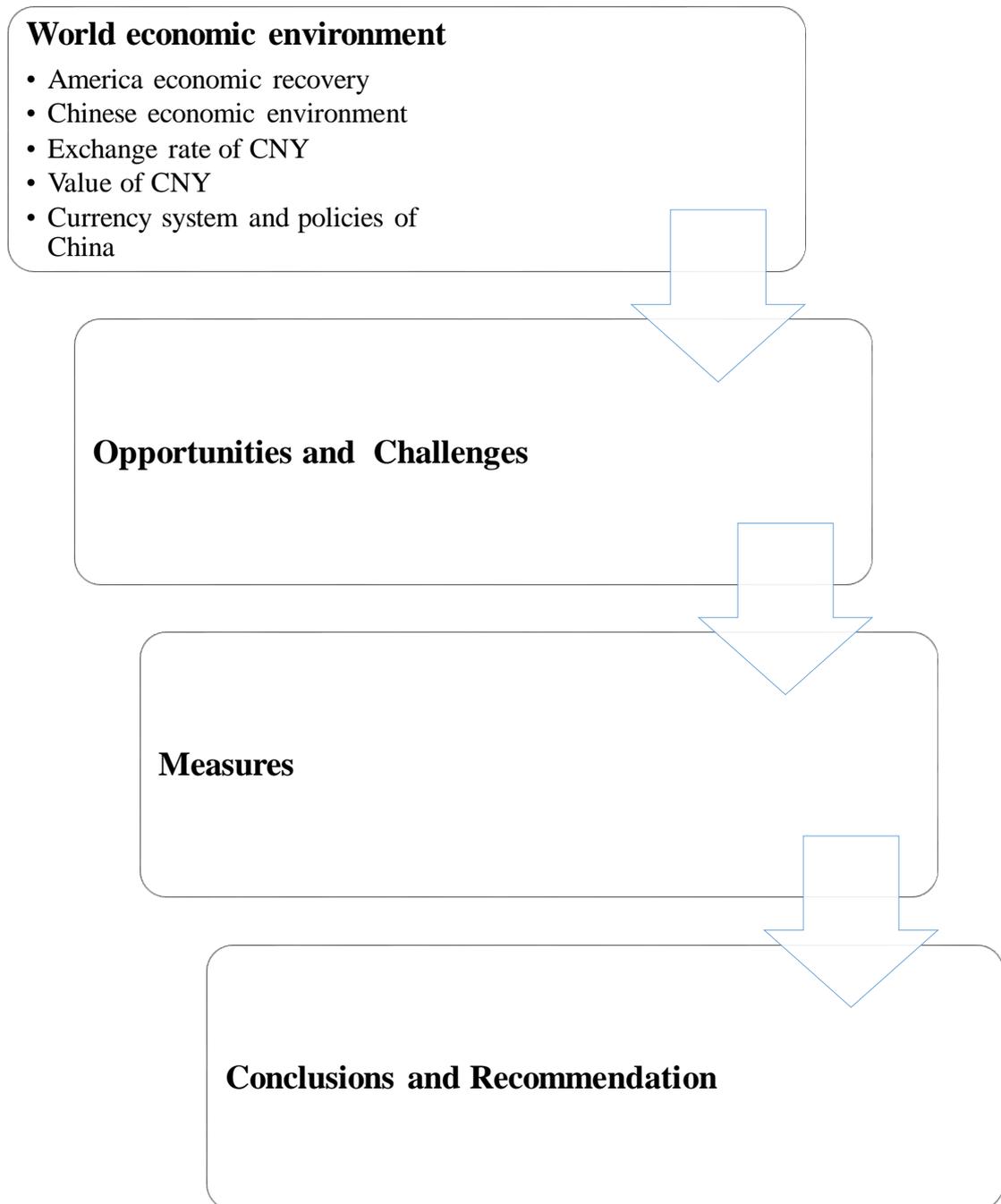
Research is limited to CNY and China. Research bases on basic finance analysis. Research will include several aspect: world economic environment, America economy, China economy, China international trade, CNY, exchange rate of CNY, exchange rate of USD and JPY and EURO, current currency system and policies of China, Chinese economy target, and strategies of China in new situation.

## **1.5 Research Significance**

Research will help researchers no matter who are from China or other countries to get some information what opportunities and challenges will be faced and how to solve these challenges for China. And hope all friends keep calm down for China rising. Research will analyze many factors of CNY internationalization combination various data which include aspects of world economic environment, international trade, international finance, currency etc. At the same time, hope this research can give every researcher some advice and enlightenments to evaluate China from Chinese angle. And the main thing is to give an overview of CNY's future and the trend of China economy in the future.

## 1.6 Theoretical Framework

Theoretical Framework is as follows:



The theoretical framework will consist of four steps which basic analysis, opportunities and challenges analysis, measures analysis and conclusion. The detail way is to analyze world economic environment first. Then infer opportunities and challenges from first step. Third step is to give measures by combination step 1 and step 2. Finally, make a conclusions and recommendation by comprehensive analysis the all opinions.

## **1.7 Overview of CNY**

Third Plenary Session of the 11th Central Committee of the Chinese Communist Party is a first milestone in year 1983 for China, it made China face to the world first time and comprehensive reformation brought huge opportunity for China. China economy had been developed fast first time. Chinese policy of “bring in and go out” helped Chinese science technology to develop in short time, and many forward concepts of enterprise management were brought in China to help Chinese enterprises changed. Many students who studied abroad chosen to come back to serve for their country. These people master lots of knowledge and skills. All of these help to make China better.

Second milestone is to join WTO. WTO made China recognize the disadvantages of products and stimulate China to change again. Enhance and keep Chinese competitiveness by continuous reformation. “Made in China” became a symbol from low quality and low price and copy.

Value of export keeps high growth and the position of trade surplus for international trade shows China is still full of vitality.

Continuous open attracted a many investors to invest China, good investment environment and policies offer security for investors.

China international position acquired obvious improvement for economy continuous high growth. In the trend of globalization, China affords more and more international affairs and China also shows responsibility in the problems of solution international affairs. In summary, China plays a more and more essential role in international affairs. With improvement of economic power and comprehensive power, CNY regionalization can't be avoided. With promotion of China foreign trade, China has many cooperation companies in different countries, regions and area. In recent, USA, EU (European Union) and ASEAN (Association of South and East Asian Nations) are the important trade companies, especially ASEAN countries. Trade with ASEAN is going up from year 2010, it means ASEAN free trade area cooperates closely with China. Therefore, CNY regionalization was inevitable with the closer relationship between China and ASEAN. Bank of China even established oversea branch bank to be responsible for settlement

CNY business which includes exchange, drawing etc. It confirm that Chinese can direct withdraw local currency with UnionPay card, which is debit card of Chinese bank, in ASEAN countries. CNY regionalization is the basic for CNY internationalization.

The third milestone of China economy was after Third Plenary Session of the 18th Central Committee of the Chinese Communist Party. At that time, China economy faced new challenges and opportunities. At the same time, it also was time of reformation. It always brought new development that China reformed every time.

The background of CNY internationalization was China GDP growth was slower and came up with “Belt and Road” strategy and proposed establishment AIIB. Therefore, the new normality of China economy is slower GDP growth. How to perfectly solve this problem became a new challenge for Chinese government. And how to further promote CNY internationalization in the situation of new normality is the problem which has to be solved for China.

According to the strategy of “Belt and Road” and AIIB, it is not difficult to imagine that China had prepare to face new challenges after CNY internationalization and has capacity to solve problems. And China has ambitions to further promote CNY internationalization and make CNY become more stable and more competitiveness currency in the future.