

CHAPTER 2

Significance of CNY Internationalization

This chapter will discuss significance of CNY internationalization, because it is really a new milestone for China no matter what China economy and currency and world economy is. To mention international currency, it has to talk about IMF and Special Drawing Rights.

2.1 Definition of Special Drawing Rights

The SDR was created by the IMF in 1969 as a supplementary international reserve asset, in the context of the Bretton Woods fixed exchange rate system. A country participating in this system needed official reserves—government or central bank holdings of gold and widely accepted foreign currencies—that could be used to purchase the domestic currency in foreign exchange markets, as required to maintain its exchange rate. But the international supply of two key reserve assets—gold and the U.S. dollar—proved inadequate for supporting the expansion of world trade and financial flows that was taking place. Therefore, the international community decided to create a new international reserve asset under the auspices of the IMF.

Only a few years after the creation of the SDR, the Bretton Woods system collapsed and the major currencies shifted to floating exchange rate regimes. Subsequently, the growth in international capital markets facilitated borrowing by creditworthy governments and many countries accumulated significant amounts of international reserves. These developments lessened the reliance on the SDR as a global reserve asset. However, more recently, the 2009 SDR allocations totaling SDR 182.6 billion played a critical role in providing liquidity to the global economic system and supplementing member countries' official reserves amid the global financial crisis.

The SDR is neither a currency, nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these

currencies in exchange for their SDRs in two ways: first, through the arrangement of voluntary exchanges between members; and second, by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions. In addition to its role as a supplementary reserve asset, the SDR serves as the unit of account of the IMF and some other international organizations.

2.2 Significance for China Economy

China economy growth was slower than several years ago, especially China GDP growth. Last year, compare with pass decade, China GDP growth was the lowest. China economy entered a new normality. CNY internationalization encouraged the confidence of China and world, especially China. Everyone thinks whether China economy started recession from three years ago or further comprehensive reformation. There is data about China GDP from year 2010 to 2014.

Table 1: China GDP from 2010 to 2014

Unit: 100 million yuan

<i>Year</i>	2010	2011	2012	2013	2014
<i>GDP</i>	408,903	484,123.50	534,123	588,018.80	535,910

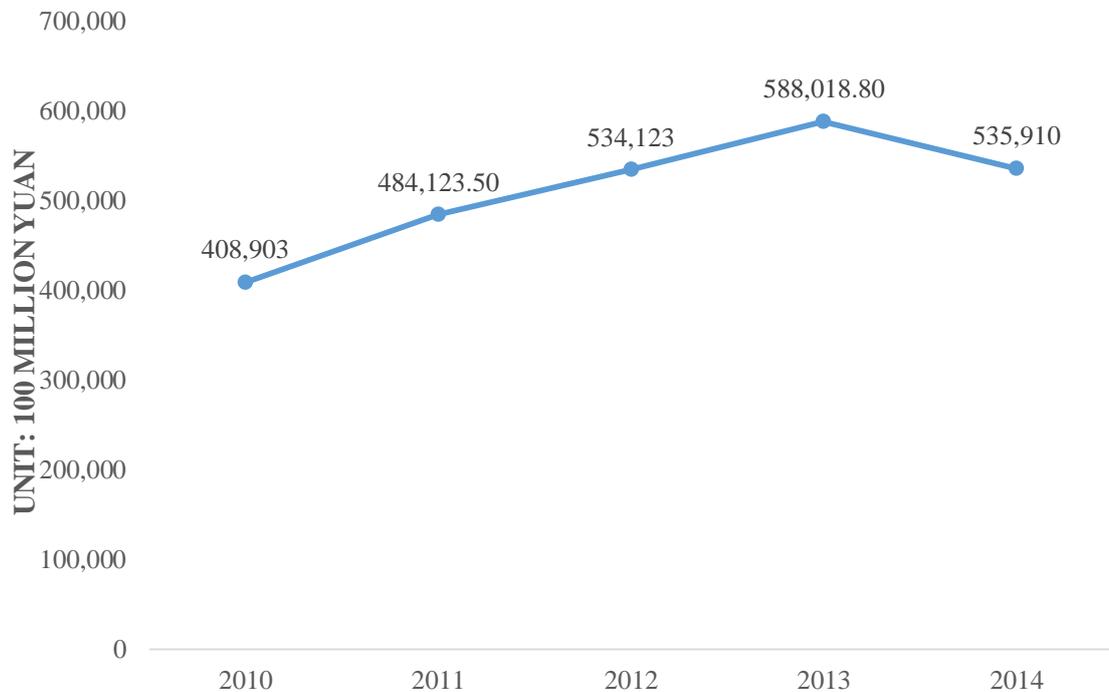
Source: National Bureau of Statistics of China

From the table, it is easy to see that the value of GDP was to go up from 2010 to 2013 and it achieved the highest position in year 2013. But the trend of GDP's value was reduction after year 2013. What happened in year 2013? Why is it a turning point in year 2013?

With development of reformation and open in year 1983, China still kept high GDP growth more than 30 years. However, there are more and more problems which were found meanwhile this period. There are at least three aspects problem including unreasonable economic structure, unreasonable mode of production and unreasonable industrial structure. These problems are barriers for further development China economy.

Therefore, new government supported reformation to reform new environment and to perfect various structures.

Figure 1: China GDP from 2010 to 2014



Resource: National Bureau of Statistics of China

Figure can show the slope more direct, and slope represents GDP growth speed. Figure shows China GDP growth reduced very rapid after year 2013. For the more comprehensive reformation, China economy suffered impact in short time and this impact influence the whole economy of China. So China economy shows recession from surface of data. In fact, China domestic consumption suffocated from CNY appreciation before internationalization. Consumption, export and investment are three power for China economy in long term. However, consumption is the weakest in three power. The traditional advantages of export are low price and related high quality, but domestic consumption still was not enough, even if Chinese government tries to improve every time.

However, CNY appreciated rapidly broke these advantages. Low price is not low with

value of CNY increase and consumption still was weaker and weaker after comprehensive further reformation. Base on this reason, China GDP suffered lots of barriers which were out of imagination.

CNY succeeded internationalization brought huge significance for China in aspect of economy. It can solve some problems of export and brought amount of confidence for China and other countries.

2.3 Significance for CNY

Not only CNY international is significance for China economy, but also significance for CNY.

2.3.1 Acquisition International Recognition

A currency who only entered IMF basket currencies just becomes international currency. For a currency, became international currency means it is acquired recognition by international. Only five currencies are international currency which include USD, EURO, GBP, JPY and CNY.

IMF announced CNY formally joined Special Drawing Rights on Nov. 30th, 2015. And value of Special Drawing Rights will be decided by spot exchange rate on Oct. 1st, 2016 and the weighted percentage are USD 41.73%, EURO 30.93%, CNY 10.92%, JPY 8.33% and GBP 8.09%.

Data shows not only CNY become international currency, but also become the third large currency in the world. This means CNY is a currency which can be freely used, and CNY acquired extensive recognition in the world.

2.3.2 Basic for Further Improvement CNY's International Position

As a young international currency, CNY still has a long way to perfect various relevant system and policies in the future, but internationalization is really a firm basic for improvement international position. If there was not internationalization as precondition for CNY, it will be not impossible to further international position of CNY. Because CNY

still is not free currency if it was not internationalization. Therefore, CNY internationalization can effectively help CNY to improve position in long term, and it is very significance for CNY.

2.3.3 Significance for World

CNY internationalization has different significance for world. There are some aspects significance as follows:

Firstly, it will give confidence for world economy in the situation of economic recession after financial crisis and European debt crisis.

Secondly, further promote economic globalization and integration in the situation of China GDP growth slow.

Thirdly, there are more options when proceeding international trade. With the old super power UK recession, America replayed UK to be global superpower. And USD also replayed GBP to become first international currency. But now, America economy faces recession problem, USD is not stable like before. Which currency will be chosen next? CNY internationalization provides a new option in this situation.

Therefore, CNY internationalization give new energy to world economy. In summary, there are three aspects significance for CNY internationalization which include China economy, CNY and world. All these significances will cause huge effect for globalization and integration in the future.