

CHAPTER 3

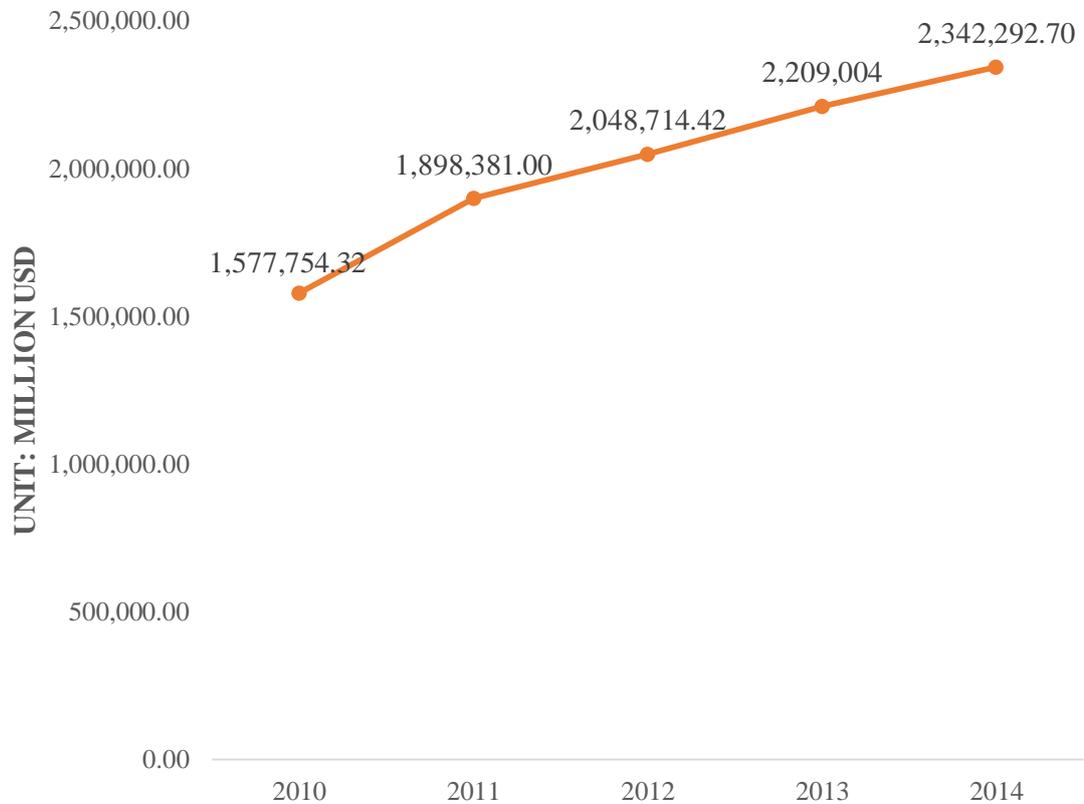
Opportunities

There are many opportunities which are possible to appear after CNY internationalization no matter which China or world. This chapter will comprehensively analyze what opportunities would be possible.

3.1 Promotion Further Global Trade

Although GDP growth of China is slower than before, trend of globalization never changed. Economic globalization still is the theme now. This year, Chinese government report set target of GDP growth is 6.5 to 7 per cent, however, last few year's data show Chinese export still is strong.

Figure 2: China Value of Exports from 2010 to 2014



Source: National Bureau of Statistics of China

Figure 2 shows that Chinese exports still kept very strong trend of increase from year 2010 to 2014, despite China implemented comprehensive reformation and value of GDP was lower than others in year 2013. According to this trend, export continuous increase is inevitable in the further. It means it is more and more important contribution for world economy that China is.

Therefore, CNY international brings a big opportunities to further promote global trade in the future. There is the reason about further promotion global trade as follows:

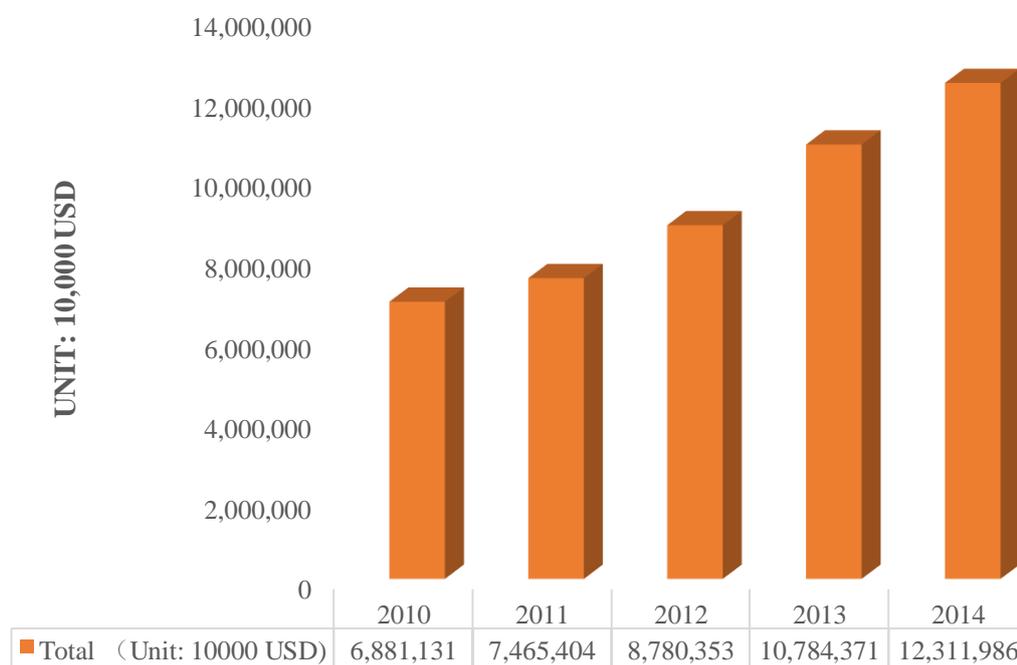
In the situation of world economy recession and America economic recovery, world economy is an unstable position in recent years. At this time, world economy needs a power to lead recovery. And Chinese exports still keeps related strong growth, this brings a hope for world economy. Because with rapid development of China economy, value of

CNY was appreciation very fast in recent. If CNY can not internationalize, this mean CNY still can not be used freely. This is a disadvantage for CNY because of not international currency. CNY appreciation caused products' cost increase. If CNY can not be used freely, other countries will afford loss which CNY appreciation brought.

However, CNY had succeeded internationalization last year, this means CNY became formally international currency. Others countries can reserve CNY and use CNY when proceeding international trade especially import products from China. CNY internationalization and liberalization will solve the problem which CNY appreciation brought and further promote global trade. Because it can reduce loss of cost increasing.

3.2 Promotion China Oversea Direct Investment

Figure 3: China Total Net Oversea Direct Investment from 2010 to 2014



Source: National Bureau of Statistics of China

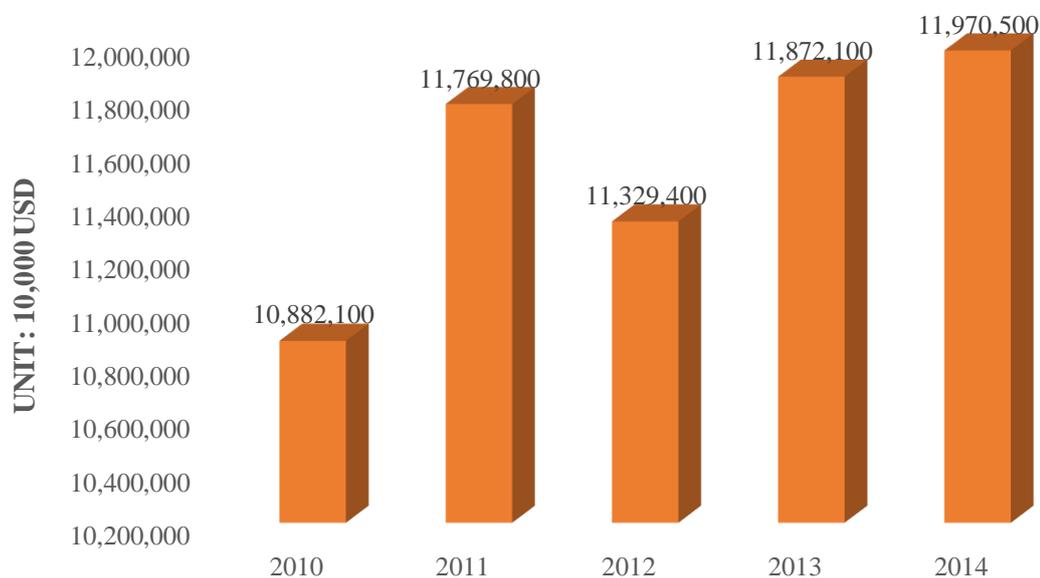
Figure 3 shows overseas direct investment of China was to increase from 2010 to 2014. In the situation of world economy depression, China overseas direct investment still kept

related high speed growth before year 2015 which is CNY internationalization. However, an obviously problem of CNY who was before internationalization is loss of calculation exchange rate. All countries use USD before CNY internationalization, therefore, using CNY investing directly oversea must cause problem of calculation. However ways of calculation are, it is difficult to avoid loss between different currencies.

CNY internationalized can effectively avoid this problem, because CNY is international currency and can be used freely. On the side of CNY, no loss caused is the key to promote oversea direct investment. And China maybe speed up step of oversea direct investment. For long term, this is a nice expectation for no matter which China or world is.

3.3 Further Promotion Foreign Investment

Figure 4: Value of Foreign Investment Actually Utilized from 2010 to 2014



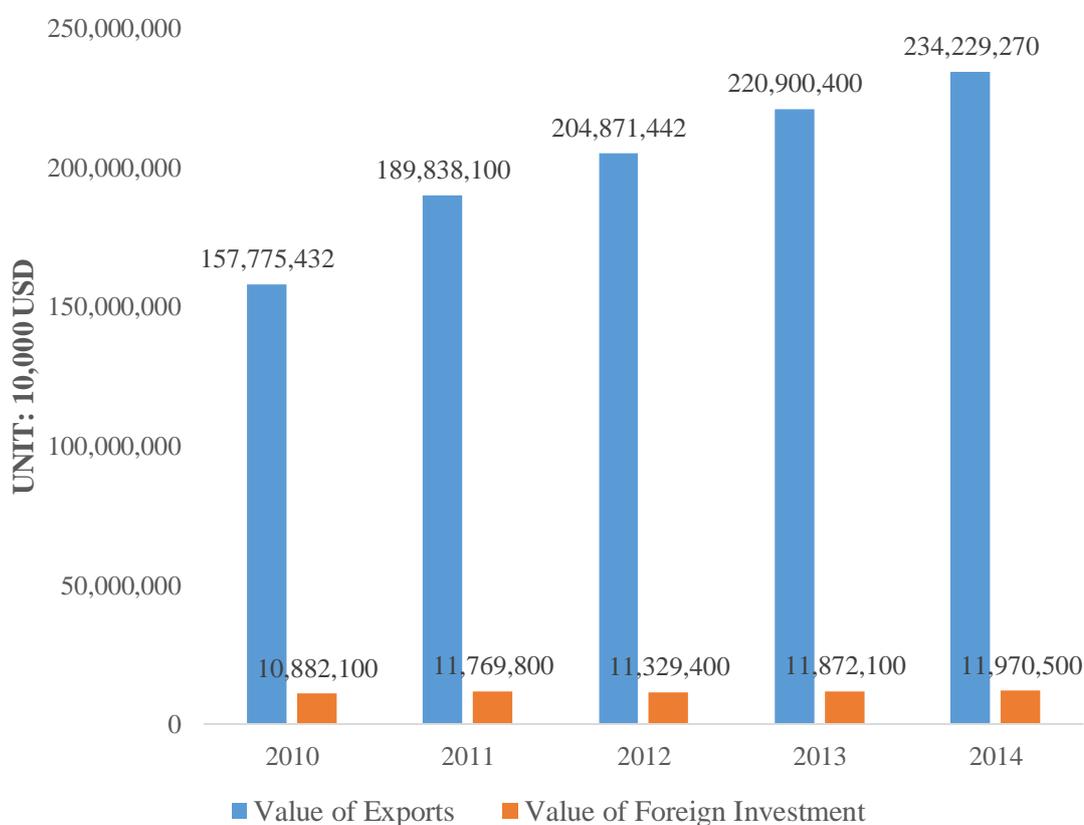
Source: National Bureau of Statistics of China

Figure 4 shows value of foreign investment in China. Investment growth rate is low according to figure knowing. Although mostly years were to increase, year-on-year

growth rate only was 0.83 per cent from year 2013 to 2014. Year-on-year growth rate from year 2010 to 2011 was 8.16 per cent, year-on-year growth rate from year 2012 to 2011 was -3.74 per cent, year-on-year growth rate from year 2013 to 2012 was 4.80 per cent. Therefore, the average growth rate from year 2010 to 2014 was 2.51 per cent. All the data were before year 2015.

There may be a big opportunity for promotion foreign to invest China after CNY internationalization. Countries who reserve CNY can directly utilize CNY to invest China, advantage of using direct CNY is to avoid loss meanwhile calculation exchange rate. How to maximum avoid loss is significance for every investors, because maximum reduction loss means maximum increase benefit. CNY internationalization offers this chance to investors to enhance benefit what wanting. Base on this view, CNY internationalization maybe promote foreign investment.

Figure 5: Comparison with Exports and Foreign Investment



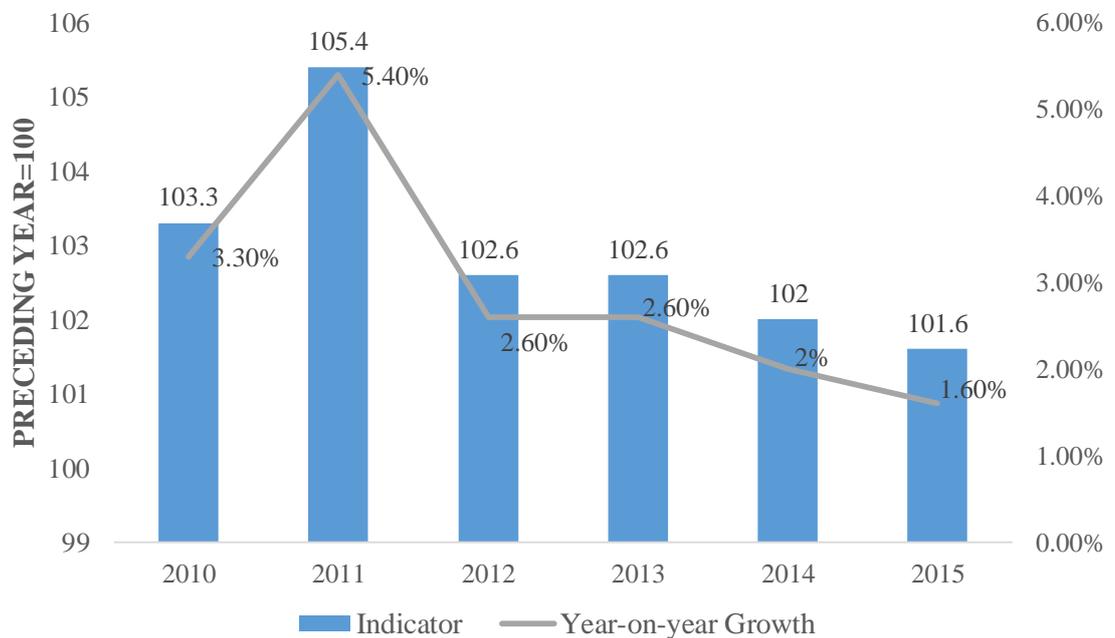
Source: National Bureau of Statistics of China

From figure 5, it is not difficult to know that year-on-year growth rate from year 2010 to 2011 was 20.32 per cent, year-on-year growth rate from year 2011 to 2012 was 7.92 per cent, year-on-year growth rate from year 2012 to 2013 was 7.82 per cent, year-on-year growth rate from year 2013 to 2014 was 6.03 per cent. So the average growth rate of export from year 2010 to 2014 is 10.52 per cent.

Compare with growth of foreign investment, foreign investment still is a low position for China. However, article had mentioned before, three powers of promotion China economic growth are consumption, export and investment. If China wants to change structures of economic development, investment has to be changed or increased. China would rely on this opportunities to rapid increase percentage of foreign investment.

3.4 Promotion Steady of CNY Domestic

Figure 6: Consumer Price Index



Source: National Bureau of Statistic of China

In general, if CPI growth rate is higher than 3 per cent, it means this country is being inflation. If CPI growth rate is lower than 2 per cent, it means this country is facing

deflation. If CPI growth rate is close to 6 per cent, it means this country is high inflation.

From year 2010 to 2011, trend of China inflation was to increase from 3.30 per cent to 5.40 per cent. However, inflation reduced very rapid after year 2011 until to be 2.60 per cent in year 2013.

Inflation keeps a low level from comprehensive further reformation in year 2013, even CNY began deflation in year 2015. In general, unstable inflation shows value of CNY is not steady in China domestic. The reasons why value of CNY is not steady in China domestic is CNY can not flow to outside. If a currency can not flow oversea, it means currency of overbalance difficulty be returned or solved. Center bank just controls by approach like reducing reserve-deposit ratio and reducing interest rate to adjust amount of currency.

However, this situation could be perfected after CNY internationalization. CNY had become international currency and can be used freely. CNY can flow oversea as other countries' foreign currencies reserve. There is other way for solution overbalance's currency in China domestic, it is to make CNY flow oversea. There is more solution to adjust value of CNY for the People's Bank of China who is center bank of China. Therefore, it is easy to promote value of CNY stable in China domestic by CNY flow oversea. This is an advantage for China keeping value of CNY relative steady in long term. And it also helps to keep credit of CNY based on value of CNY relative steady.

Table 2: Money and Quasi-Money (M2) Supply from 2010 to 2014

Unit: 100 Million Yuan

<i>Year</i>	2010	2011	2012	2013	2014
<i>Value</i>	725,851.80	851,590.90	974,148.80	1,106,524.98	1,228,374

Source: National Bureau of Statistics of China

Table 3: Money (M1) Supply from 2010 to 2014

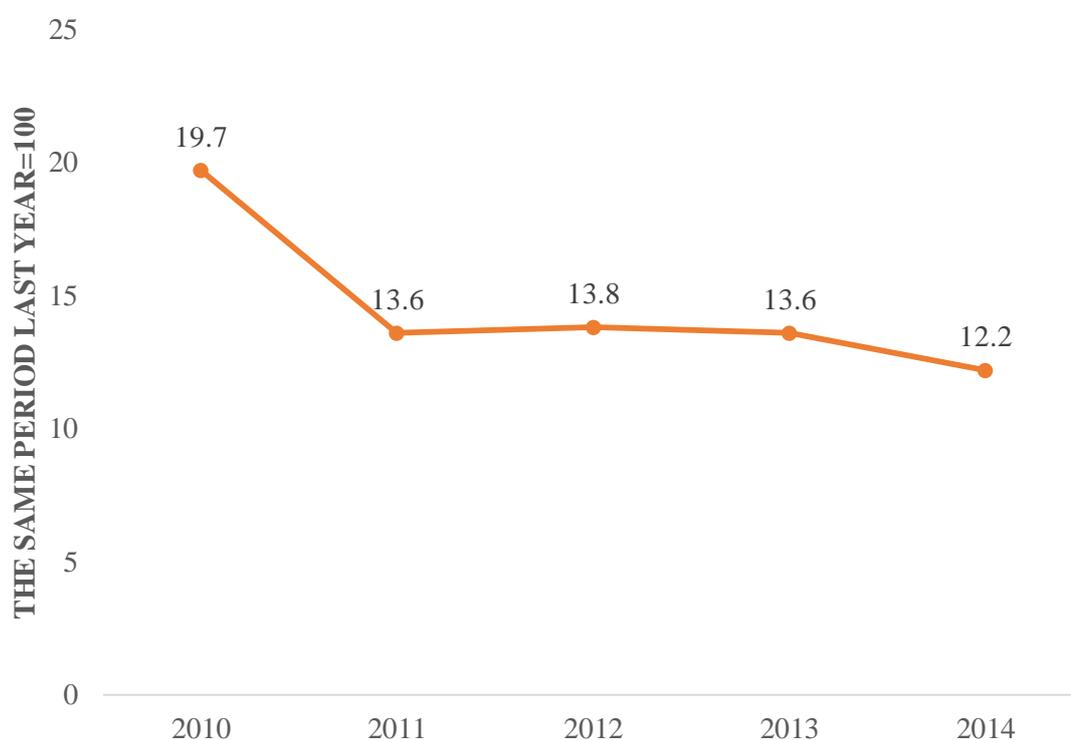
Unit: 100 Million Yuan

<i>Year</i>	2010	2011	2012	2013	2014
<i>Value</i>	266,621.50	289,847.70	308,664.20	337,291.05	348,056.41

Source: National Bureau of Statistics of China

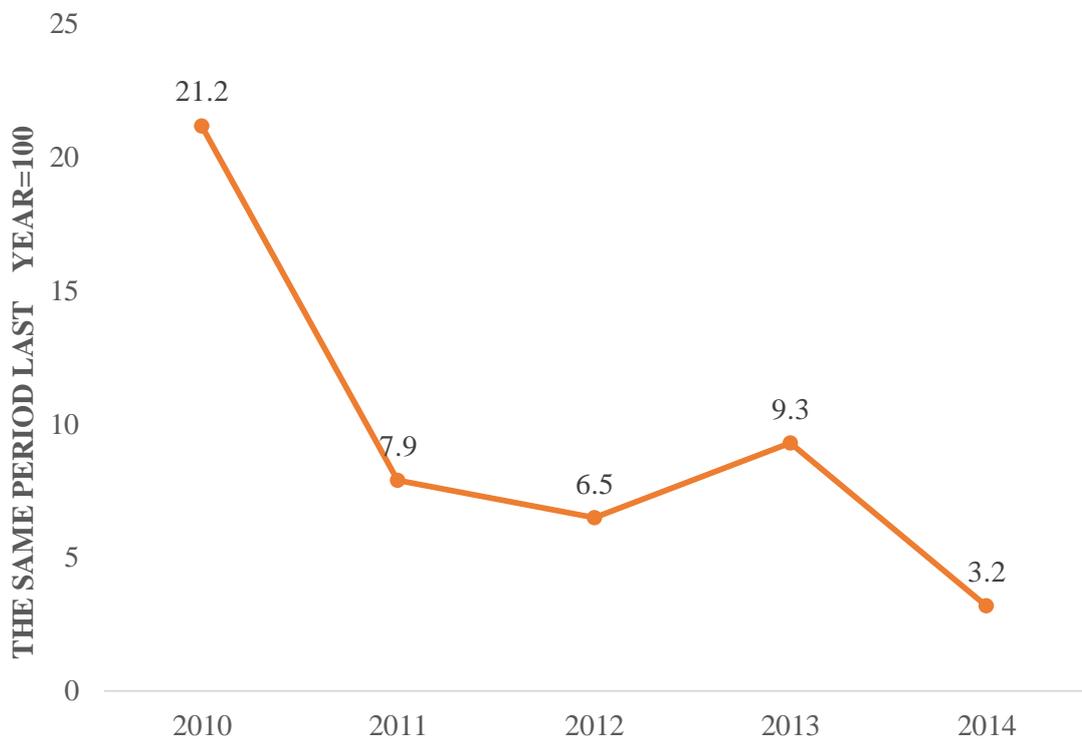
Table 2 and 3 shows that whatever money or quasi-money are, value still kept going up from year 2010 to 2014. But it is known to all, value of currency depends on supply. If supply is too more, value of currency depreciates. However, compare consumer price index, CPI kept going down from year 2010 to 2014, and amount of supply kept going up. Is it contradiction?

Figure 7: Growth Rate of Money and Quasi-Money Supply from 2010 to 2014



Source: National Bureau of Statistics of China

Figure 8: Growth Rate of Money (M1) Supply from 2010 to 2014



Source: National Bureau of Statistics of China

Figure 7 and 8 shows that growth rates went down no matter who money and quasi-money are. Although value of supply increased from year 2010 to 2014, growth rates decreased very fast at the same time.

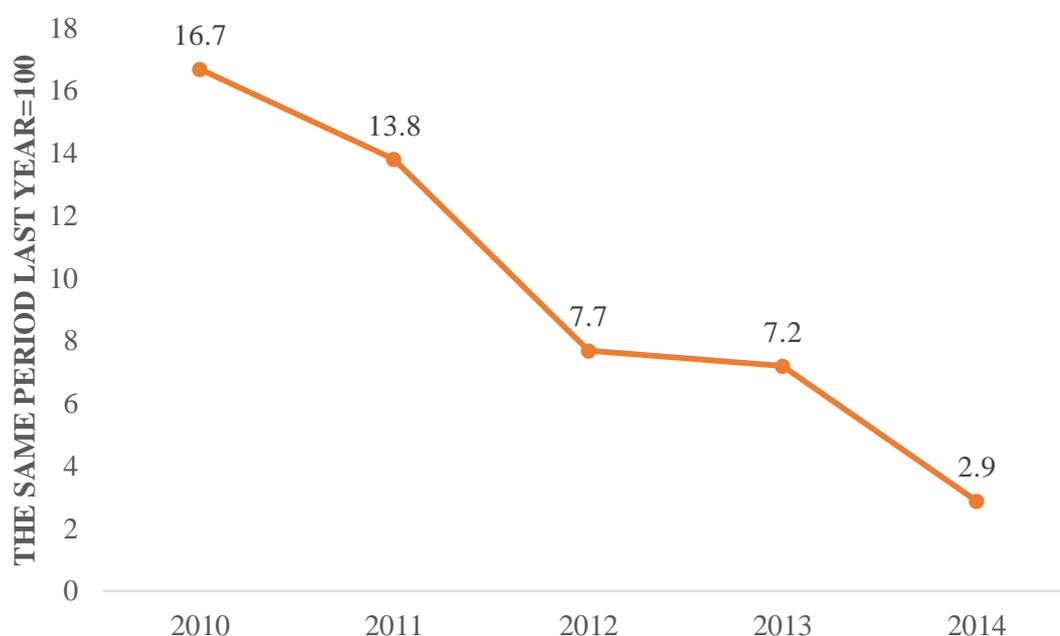
Figure 9 shows growth rate of currency in circulation from year 2010 to 2014 still continued to go down and trend of future is to continue going down. That means currency in market is less and less in future and it will depend on value of currency and capacity of purchase. That is why consumer price index continued to reduce from year 2010 to 2014.

Why did growth rate of currency circulation reduce so fast from year 2011 to 2012? And what happened at that year?

In year 2008, global financial crisis explored and in order to save market, China utilized 4 trillion Yuan. These money were from center bank of China. Therefore, inflation was very serious at that time.

The People's Bank of China decided to return overbalance currency, so it announced to increase reserve requirement ratio six times in one year. And this adjusted policy also impacted circulation and value of CNY in domestic. That is why growth rate of currency in circulation reduced so fast from year 2011 to 2012. It also can prove CNY can not flow oversea before internationalization. If center bank implements strong policy of stimulation to stimulate domestic economy, it would cause intensive impact for domestic economy because of value of CNY change.

Figure 9: Growth Rate of Currency in Circulation (M0) Supply from 2010 to 2014



Source: National Bureau of Statistics of China

Analyze table these tables and figures, it confirms that there is an opportunity which China can keep steady of value of CNY by CNY internationalization. Because CNY internationalized can make CNY flow oversea to be foreign exchange reserve for other countries. These foreign exchange reserve can enhance quantity of flow from China domestic to foreign countries. And the People's Bank of China just sustains to keep related steady of supply and currency in circulation. Stable supply and circulation just ensures steady of value of CNY no matter where foreign market or domestic is.

3.5 More Adaption World Financial Order

CNY will face world with more open attitude and deeper touch world financial order after internationalization. There are no many international currency in the world, because there is high requirement for currency entry basket currencies of IMF. As new member of international currency, there are many problems that CNY has to face and solve immediately. Internationalization also provide a chance to CNY which is that CNY might be better to join world financial order and better to adapt world financial order by finding and solution disadvantages.

Under the current regime of CNY, exchange rate of CNY is to combine floating and government control. But government usually doesn't intervene exchange rate except there are some special accidents. Therefore, CNY internationalized will face world with more flexible policies and government will not control exchange rate in mostly situations and make market freely adjust exchange rate of CNY. If doing is like this, CNY will be more internationalization and more adaption world financial order. CNY will be acquired more credit and recognition by world. Therefore, more adaption world financial order really is an opportunity for CNY internationalized.

3.6 Becoming International Investment Tool

Investment currencies is normal activities for investors. Currencies really can be an investment tool like stock, bond, securities and gold etc. As investment tool, there are five requirements for currency.

3.6.1 Strong Currency

Investment was separated to long term and short term. Whoever long term or short term is, requirement currencies invested are strong. Because strong currencies always keep trend of going up. And even if currencies invested goes down, these currencies also can keep enough strong to stop going down. That is why choose strong currencies when investing currencies.

3.6.2 High Credit

Credit guarantee is necessary when investing currencies. Credit guarantee bases on national credit. As necessary condition, credit relies on how powerful the country is. If a country's credit is lower and lower, it means currency of this country will be lost confidence by investors. It is an impact for value of currency and international position of currency.

CNY internationalized means China has enough comprehensive capacity to ensure credit and currency and to keeps high credit in long term.

3.6.3 Effective Maintenance of Value

The reason that investors choose to invest currency is effective maintenance of value. In other meaning, only those currencies who are powerful economic capacity can has function of maintenance of value. And those countries' currency always is international currency. CNY joined IMF means function of maintenance of value of CNY was accepted by world.

3.6.4 Steady

Steady means exchange rate of currency doesn't suddenly fluctuate too much expect some special period. Appreciation and depreciation is normal for finance. But if a currency who always is intense fluctuation is not considered by most investors. Because intense fluctuation is dangerous to keep value for investors who want to invest long term. Character of international currency is relative steady in long term, value can be kept in a level in long time expect some special accidents like financial crisis.

3.6.5 National Economic Support

Judge whether a currency is strong and high credit, national economic is basic support. Economic power is basic guarantee. A country whose economic power is stronger means economic support is stronger. High credit usually means this country plays a very essential role in international economy and international affairs.

A currency which can be chosen to invest must possess this character and currency location nation must be a country whose economy capacity is strong. Like USD, EURO, JPY and GBP, those countries can effect world economy, especially USA and EU.

In summary, CNY internationalized shows CNY had possessed these characters which include strong currency, high credit, effective maintenance of value, steady and national economic support. Therefore, there is high odds that CNY becomes international investment tool.