

CHAPTER 4

Challenges

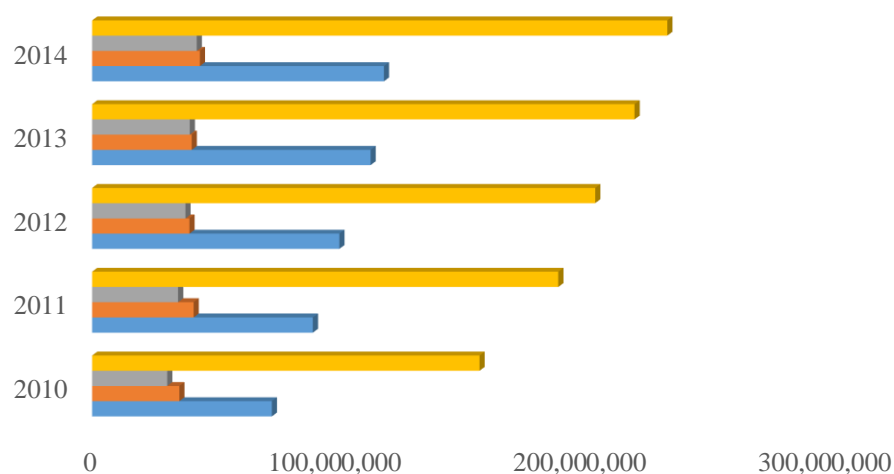
Although CNY succeeded entry basket currencies of IMF and had become international currency and there are many opportunities for CNY in the future, there are also many challenges that CNY has to face and can not be ignored. This chapter will combine some data to analyze what challenges CNY should be face and can not ignore.

4.1 Challenge Current Rule

4.1.1 Domination Asia Market

Although China set the target of growth to 6.5 to 7 per cent this year, China still insists to further promotion comprehensive reformation in the future. China international trade never stops step.

Figure 10: China Value of Exports to Different Regions from 2010 to 2014



	2010	2011	2012	2013	2014
Total Value of China	157,775,432	189,838,100	204,871,442	220,900,400	234,229,270
North America	30,584,271	35,007,506	38,011,010	39,781,518	42,625,673
Europe	35,518,797	41,357,108	39,639,909	40,574,398	43,882,482
Asia	73,195,484	89,903,809	100,681,186	113,406,962	118,838,071

UNIT: 10,000 USD

■ Total Value of China ■ North America ■ Europe ■ Asia

Source: National Bureau of Statistics of China

China value of exports still continued to increase from year 2010 to 2014, especially Asia. Most products were exported to Asia countries and still keep increasing. It shows Asian market is an essential market for China. Can forecast that Asia market will keep to increase and play more and more important role in products export of China.

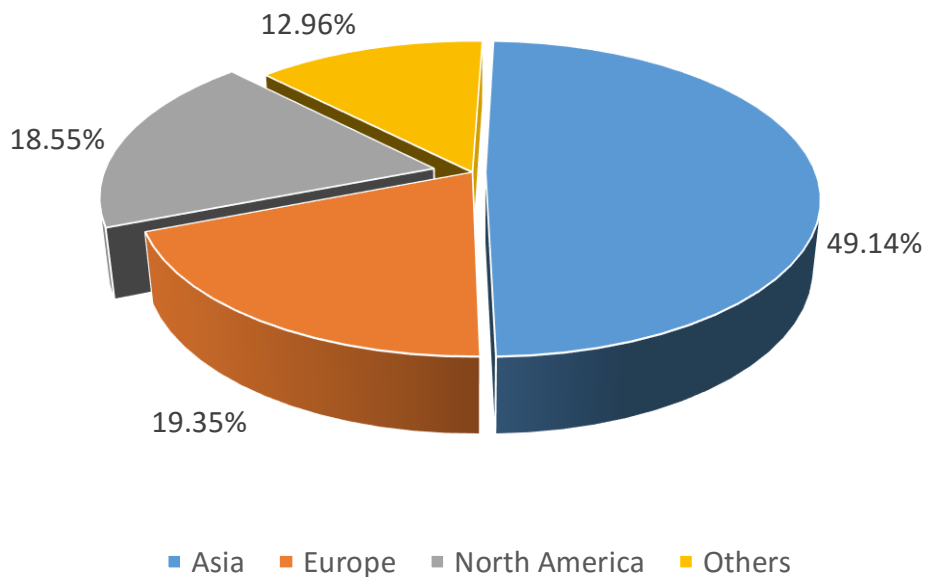
Table 4: Percentage of China Value of Exports

to Different Regions from 2010 to 2014

<i>Region</i>	<i>Asia</i>	<i>Europe</i>	<i>North America</i>	<i>Other</i>
<i>Year</i>				
2010	46.40%	22.51%	19.38%	11.71%
2011	47.36%	21.79%	18.44%	12.41%
2012	49.14%	19.35%	18.55%	12.96%
2013	51.34%	18.37%	18.01%	12.28%
2014	50.74%	18.73%	18.20%	12.33%

Source: National Bureau of Statistics of China

Figure 11: Percentage of China Value of Exports to Different Regions 2012



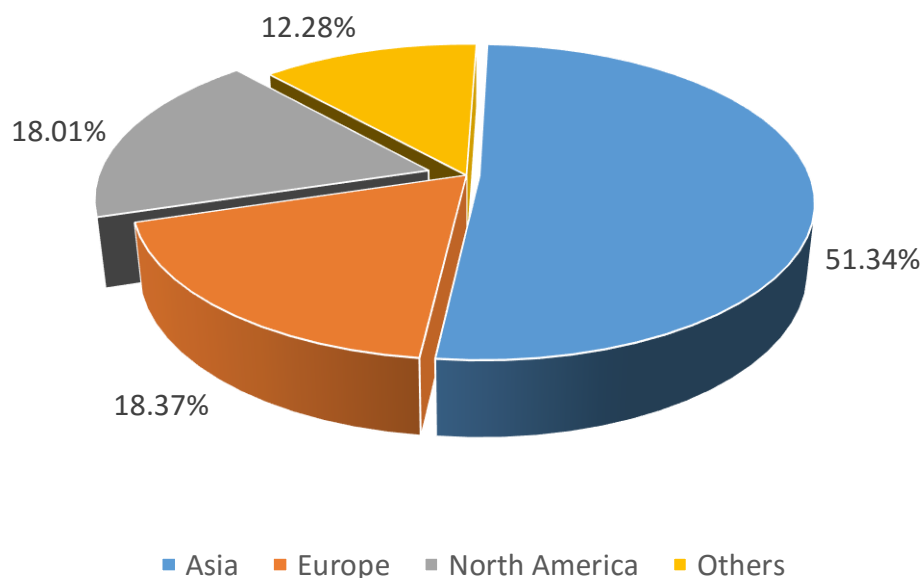
Source: National Bureau of Statistics of China

Table 4 shows clearly that the percentage of China export to Asia, Europe, North America and Others regions. Percentage of North America reduced to 18.55 per cent from

19.38 per cent. But percentage of Asia increased to 49.14 per cent from 46.40 per cent. Consider that China value of exports still kept increase, percentage of Asia increase fast from year 2010 to 2012.

Then China began to implement comprehensive further reformation, China economic structures would be changed. Many unreasonable structures would get reformation and adjustment. Those changes would get new energy for China and Asia market.

Figure 12: Percentage of China Value of Exports to Different Regions 2013



Source: National Bureau of Statistics of China

Figure 11 and 12 shows that Asia market was dominated by China and Asia market's position was more and more important for China. Because percentage of Asia market was more than 50 percent, the highest percentage achieved 51.34 per cent. All of these appeared the time after China comprehensive further reformation in year 2013.

These data prove Asia market was dominated by China and position of Asia market is very significance. CNY internationalized can rely on Asia market to promote regional internationalization. Then, based on Asia market to establish CNY's international currency of Asia region. Because China and Asia market cooperates more and more close.

CNY is highly possible to replace position of USD, and Asian countries are highly possible to use CNY to trade with China. Because it doesn't need to consider the loss meanwhile calculation exchange rate.

CNY will challenge the position of USD and China will challenge the benefit in Asia of USA. However, current rule was established by USA, challenge USA means challenge current rule. Therefore, USA maybe relevant implement to measure challenge.

4.1.2 Further Promotion Relationship with ASEAN

Table 5: Total China Value of Exports to ASEAN from 2010 to 2014

Unit: 10,000 USD

<i>Country</i>	<i>Year</i> 2010	2011	2012	2013	2014
<i>Brunei</i>	36,761	74,439	125,244	170,378	174,681
<i>Myanmar</i>	347,552	482,150	567,371	733,869	936,765
<i>Cambodia</i>	134,734	231,481	270,811	340,951	327,474
<i>Indonesia</i>	2,195,357	2,921,724	3,428,338	3,693,049	3,905,961
<i>Laos</i>	48,362	47,627	93,414	172,258	183,948
<i>Malaysia</i>	2,380,204	2,788,598	3,652,528	4,593,059	4,635,339
<i>Philippines</i>	1,154,026	1,425,538	1,673,133	1,986,813	2,347,358
<i>Singapore</i>	3,234,723	3,557,013	4,074,187	4,583,187	4,891,117
<i>Thailand</i>	1,974,108	2,569,475	3,119,620	3,271,790	3,428,923
<i>Vietnam</i>	2,310,154	2,909,014	3,420,811	4,858,630	6,373,001
<i>Total for ASEAN</i>	13,815,981	17,007,059	20,425,457	24,403,984	27,204,567
<i>Total Value of Exports from China to Asia</i>	73,195,484	89,903,809	100,681,186	113,406,962	118,838,071
<i>Total Value of Exports</i>	157,775,432	189,838,100	204,871,442	220,900,400	234,229,270

Source: National Bureau of Statistics of China

This table shows that China value of exports to ASEAN continued to increase from year 2010 to 2014. Year-on-year growth from 2010 to 2011 was 23.10 per cent, year-on-year growth from 2011 to 2012 was 20.10 per cent, year-on-year growth from 2012 to

2013 was 19.48 per cent, year-on-year growth from 2013 to 2014 was 11.46 per cent. So the average growth was 18.535 percent. Growth rate reduced after year 2012, but it still kept relative high growth.

Table 6: Total China Value of Exports to USA from 2010 to 2014

Unit: 10,000 USD

<i>Year</i>	2010	2011	2012	2013	2014
<i>Value</i>	28,328,655	32,445,336	35,177,679	36,840,640	39,606,255
<i>Total Value of Exports China</i>	157,775,432	189,838,100	204,871,442	220,900,400	234,229,270

Source: National Bureau of Statistics of China

Table 6 shows China value of exports to America also increased from year 2010 to 2014. Year-on-year growth from 2010 to 2011 was 14.53 per cent, year-on-year growth from 2011 to 2012 was 7.92 per cent, year-on-year growth from 2012-2013 was 7.82 per cent, year-on-year growth from 2013 to 2014 was 6.03 per cent. Therefore, the average growth was 9.075 per cent.

Compare the average growth of ASEAN and USA, average of ASEAN was two times of average of USA. It means China focus on development trade relationship with ASEAN.

**Table 7: Percentage of ASEAN and USA
of China Value of Exports from 2010 to 2014**

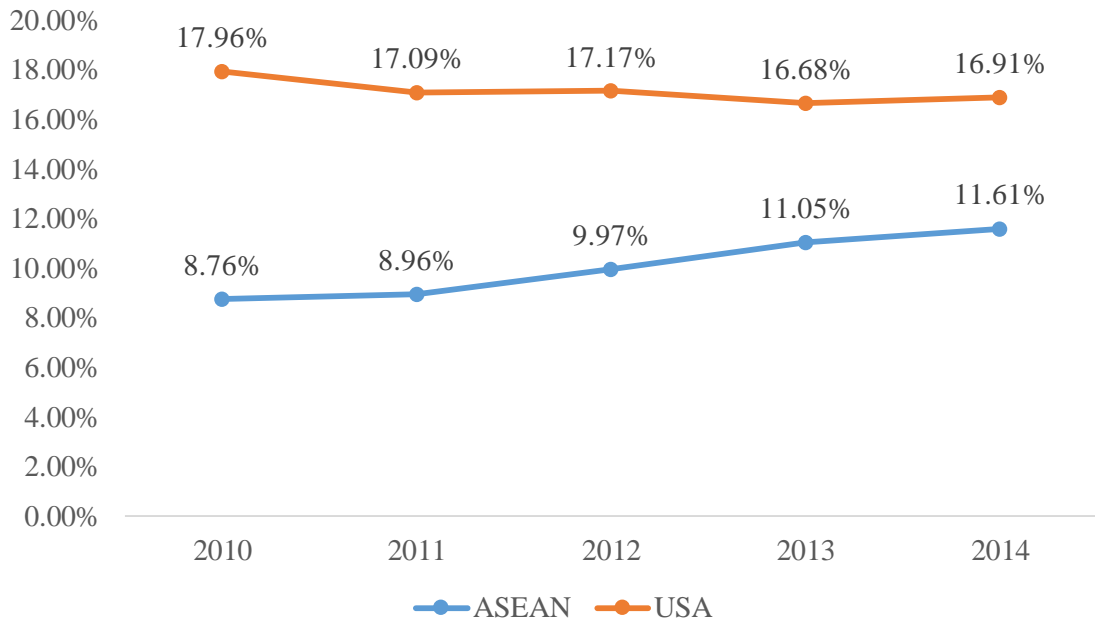
<i>Year</i>	2010	2011	2012	2013	2014
<i>ASEAN</i>	8.76%	8.96%	9.97%	11.05%	11.61%
<i>USA</i>	17.96%	17.09%	17.17%	16.68%	16.91%

Source: National Bureau of Statistics of China

Although percentage of USA is higher than ASEAN from surface, but if change this table to figure, there is an interesting phenomenon.

Figure 13: Percentage of ASEAN and USA

of China Value of Exports from 2010 to 2014



Source: National Bureau of Statistics of China

Growth of ASEAN is higher than USA and USA even is minus growth from year 2010 to 2014. Although America economy began recovery, growth still is slow.

These figures and tables also shows China focus on further promotion cooperation with ASEAN and tries to establish CNY regional internationalization in Asia first. But this must impact benefit of USA which is in Asia and ASEAN. Because CNY will challenge the position of USD in ASEAN.

In fact, CNY is sure to challenge USD's position in ASEAN and Asia. Because China and ASEAN has more and more close cooperation by analysis data. And ASEAN plays an important role in foreign trade with China.

If China relies ASEAN to establish completely CNY regional international, CNY would be further internationalization to world and comprehensively challenge position of

USD.

Current rule built on USA for Bretton Woods System after World War 2, and USA relied on this system to be international currency. Therefore, USA established current rule by strong currency. But now, with CNY internationalization, China would challenge current rule by strong economic influence.

In this situation, China would face some activities which are from America. These activities will become challenges for China which are brought from America.

4.2 Current Policies of CNY

Current, exchange rate of CNY can not be completely free floating and government would intervene CNY exchange rate in necessary situation, for China capital project still is not comprehensive open. Therefore, China center bank can choose tools of interest rate, exchange rate, reserve requirement ration, open market operation etc. to adjust or control CNY.

If CNY is not internationalization, CNY's policies just are for domestic to adjust domestic market. However, CNY's policies must flow oversea with CNY internationalization. Other countries must research these policies to respond impacts which CNY internationalization brought. Therefore, other countries must adjust currency policies to respond CNY's policies. In that time, whether China center bank has some ways to respond others' change? And whether China center bank has capacity to keep value of CNY steady and to keep CNY to don't suffer huge impact? In that time, whether China will adjust or change current currency policies to respond other countries' change to keep steady of CNY? And what kind of policies can effectively solve those problems which were brought by other countries for adjustment currency policies?

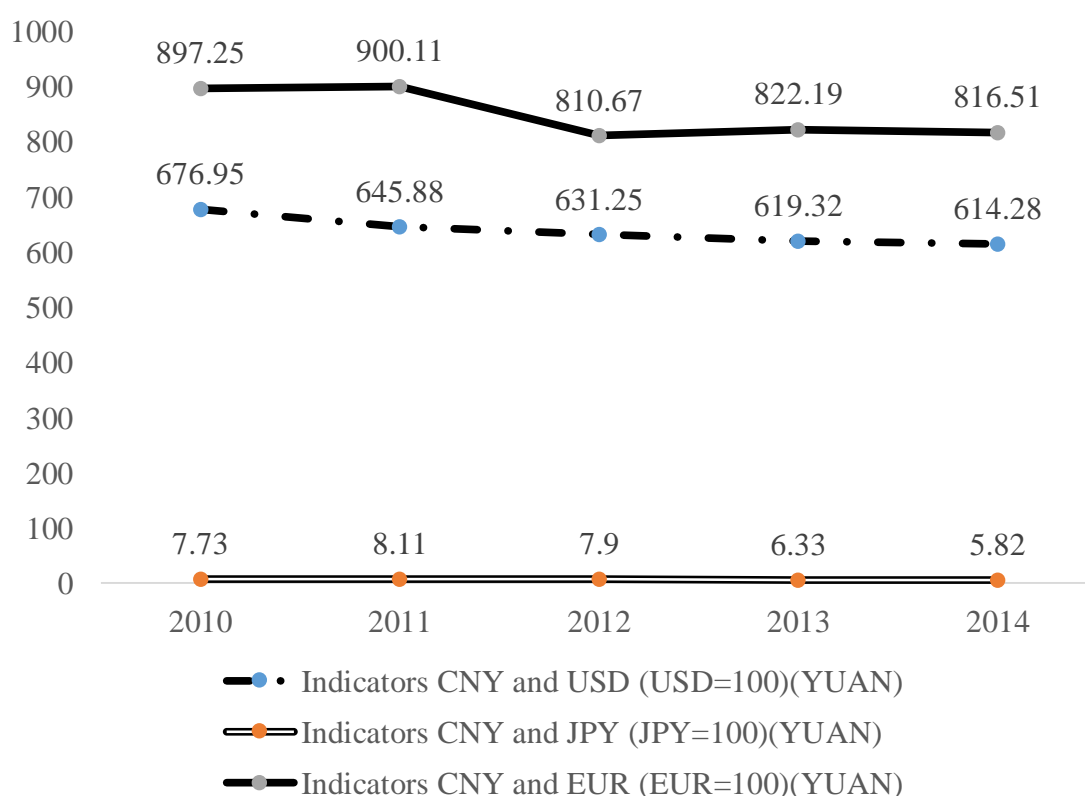
In the background of globalization and CNY internationalization, Chinese currency policies can not avoid to be impacted by other countries' currency policies. This will be a big challenge for China and CNY. And how to perfectly solve this problem also is a big challenge for Chinese government.

4.3 Face Stronger Competition

There are five currencies in basket currencies of IMF which are USD, EURO, CNY, JPY and GBP. Although percentage of CNY in IMF is 10.92 per cent, CNY still is new member of international currency comparison with other four currencies. Although weight of CNY is over JPY and GBP, CNY still has many things to study. Other four countries and region maybe will implement some necessary ways to respond CNY even Chinese economy.

In this background and situation, CNY maybe face stronger competition than before, especially currency war.

Figure 14: The Exchange Rate between CNY and Other Currencies



Source: National Bureau of Statistics of China

USD/CNY was depreciation from year 2010 to 2014. EURO/CNY also was depreciation from year 2010 to 2014, and it was same as JPY/CNY. Especially EURO,

value of EURO/CNY decreased 9.94 per cent from year 2011 to 2012. Although value of EURO/CNY was increase a little bit, trend of value still was to go down.

Compare USD and CNY, trend of USD continued to depreciate. These data shows CNY has strong trend of increase and value of CNY continued to appreciate.

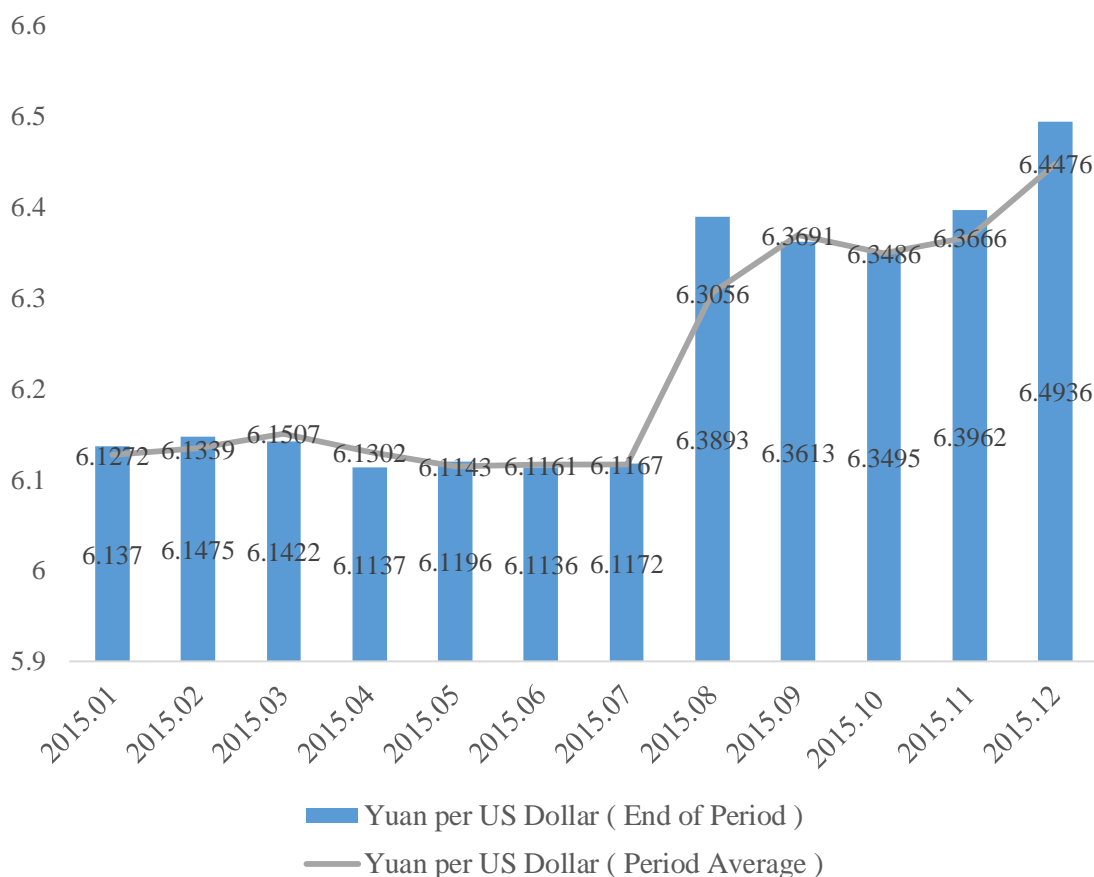
Table 8: Exchange Rate between USD and CNY

<i>Period</i>	Yuan per US Dollar (End of Period)	Yuan per US Dollar (Period Average)
<i>Jan. 2015</i>	6.137	6.1272
<i>Feb. 2015</i>	6.1475	6.1339
<i>Mar. 2015</i>	6.1422	6.1507
<i>Apr. 2015</i>	6.1137	6.1302
<i>May. 2015</i>	6.1196	6.1143
<i>Jun. 2015</i>	6.1136	6.1161
<i>Jul. 2015</i>	6.1172	6.1167
<i>Aug. 2015</i>	6.3893	6.3056
<i>Sep. 2015</i>	6.3613	6.3691
<i>Oct. 2015</i>	6.3495	6.3486
<i>Nov. 2015</i>	6.3962	6.3666
<i>Dec. 2015</i>	6.4936	6.4476

Source: the People's Bank of China

This data is from the People's Bank of China, data shows exchange rate between USD and CNY in August last year. By analysis data, it is not difficult to find USD/CNY was appreciation after August last. And it amount of increase achieved 3.09 per cent. If change the table to figure.

Figure 15: Exchange Rate between USD and CNY



Source: the People's Bank of China

CNY depreciated last year, what happened last year about CNY? Chinese center bank announced spot rate of USD/CNY was 6.2298 and increased 1.9 per cent on August. 11th, 2015. CNY finished appreciation which continues several years. It wealth to notice that why CNY suddenly depreciated in August last year? This time is before CNY internationalization. With CNY appreciation all the time, China exports suffered barriers. And there was a big odds that the Federal Reserve would announce increase interest rate in September last year. Therefore, in order to touch the respond of world when CNY depreciate, China made CNY depreciate and observed the result. The final result was China exports got increase and gold rice continued to reduce. At the same time, China succeed to force the Federal Reserve announced to delay increase interest rate.

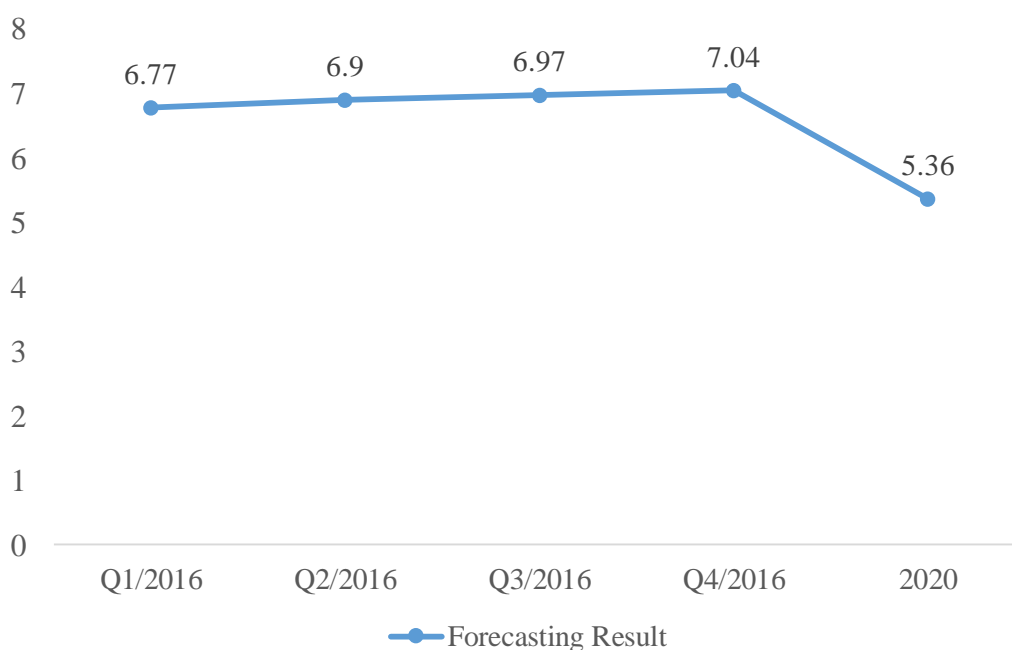
With the Federal Reserve announcement increase interest rate in December last year,

USD/CNY appreciated after increase interest rate. Because if USD increases interest rate, it means America economy is recovering. Most money flowed to invest USD after increase interest rate.

It is known to all, in order to achieve benefit or impact other country's economy, currency war is necessary. China will face more and more currency war after CNY internationalization, because CNY continuously and rapidly appreciate will impact some countries' benefit. Therefore, implement currency to stop currency appreciation too fast is normal and frequency in the condition of peace.

CNY will face stronger competition like currency war. With CNY internationalization and being investment tool, directly bear CNY become possible. Bear CNY will impact value of CNY, then it will impact China domestic economy. But bull CNY also need to be noticed, because some investors would bull CNY first, then bear CNY when the value of CNY achieves the position what they want. If China can not solve this challenge, China economy will be impacted. Therefore, how to effectively solve and utilize currency war also is a challenge for China in the future.

Figure 16: Forecasting Exchange Rate of USD and CNY



Source: TRADING ECONOMICS

Table 9: Forecasting Interest Rate of USD and CNY

<i>Period</i>	Q1/2016	Q2/2016	Q3/2016	Q4/2016	2020
<i>USD</i>	0.5	0.5	0.75	1	4.5
<i>CNY</i>	4.1	4.1	3.85	3.85	5

Source: TRADING ECONOMICS

To analyze forecasting data, it can conclude that CNY will be faced stronger competition especially currency war in the further. Because China is second large economic entity and USA is first large economic entity. With economic recovery of USA, economic conflicts can not be avoid between two countries, even including those old member of IMF like Japan. Adjust interest rate always is an effect way to attract investors to invest USD. In order to keep benefit of CNY and China economy, how solution will be implement about Chinese government? Can conclude that various ways will be used to keep local benefit and weak another power of economy in the future. Therefore, whether young international currency CNY can solve these challenges with nice tactics and strategies?