



**Opportunities and Challenges of
China after CNY Internationalization**

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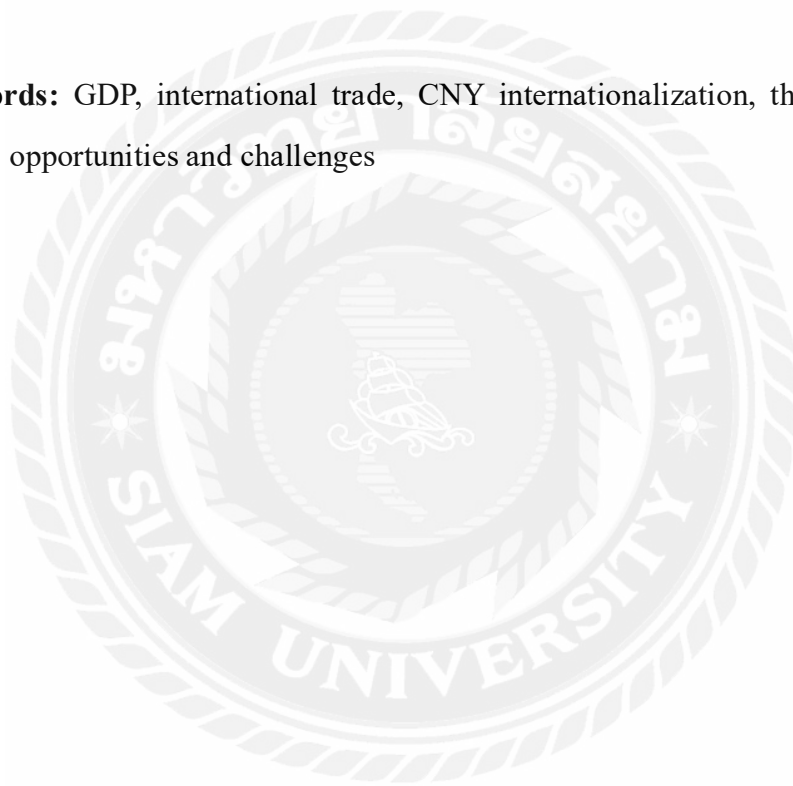
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Abstract

With China reformation and open more than 30 years, China GDP was keeping high speed growth even if the growth speed of GDP is lower than before from last year. Growth speed of China GDP still keeps middle-high speed to grow. With international trade further promotion, China became world factory. More and more amount of products were exported to world from China. Therefore, CNY internationalization is inevitable and very significant for China. According the report which was released by IMF last year that CNY succeeded into basket currencies of IMF and acquired the Special Drawing Rights. It announced that CNY is formally international currency from last year. Face this change, it is opportunities and challenges for China after CNY succeeded internationalization. There are six aspects of opportunities for China which include promotion further global trade, promotion China oversea direct investment, further promotion foreign investment, promotion steady of CNY domestic, more adaption world financial order and becoming international investment tool. These opportunities consist of global economy and China economy and development opportunities for world. But it has to notice the challenges after CNY internationalization. It maybe suffer three aspects' challenges for China which are challenge current rule, current policies of CNY and face stronger competition. For rapid development of China economy and improvement international influence, it maybe touch current rule and challenge some countries' benefit. And whether current policies of CNY are for internationalization? It can not avoid to face stronger competition, especially currency war which instigates by some countries whose benefit were impacted. The objective of this article is to analyze the opportunities and challenges which might happen by analysis of various data of economy and index. Combine data and problems to advice relevant measure to solve problems. There are five aspects' solution for China. These solutions include aspect of policies and regime of CNY, aspects of national strategies and creation new national strategy like combination AIIB and "Belt and Road" and aspect of more establishment CNY central settlements. Come to some conclusions in final. To comprehensive analyze data and information and solutions, the conclusions are that China

economy will keep middle-high growth, there is coexistence opportunities and challenges, China has national strategy to support economic and CNY development and CNY will more improve regional influence. In summary, there are reasons to believe that China can promote CNY comprehensive internationalization and become international currency which is like position of USD by combination various policies and solutions and national strategy. And China economy will never reduce step to develop in the background of CNY internationalization, because CNY internationalized gives China new energy to develop economy and China will be more confidence to face world and world economy.

Keywords: GDP, international trade, CNY internationalization, the Special Drawing Rights, opportunities and challenges



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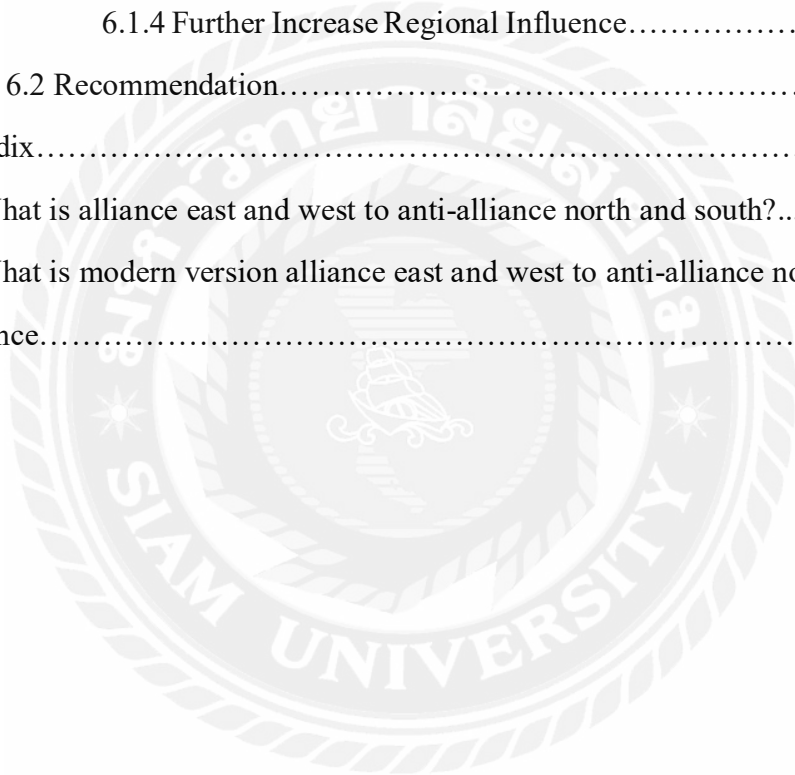
Siam University is an international university in Bangkok, Thailand. There are many excellent teachers and nice instructional resource. I will recommend to my friends who want to further study as master or Doctor. And I will never forget this experience which I studied and lived here. These are my treasure forever.

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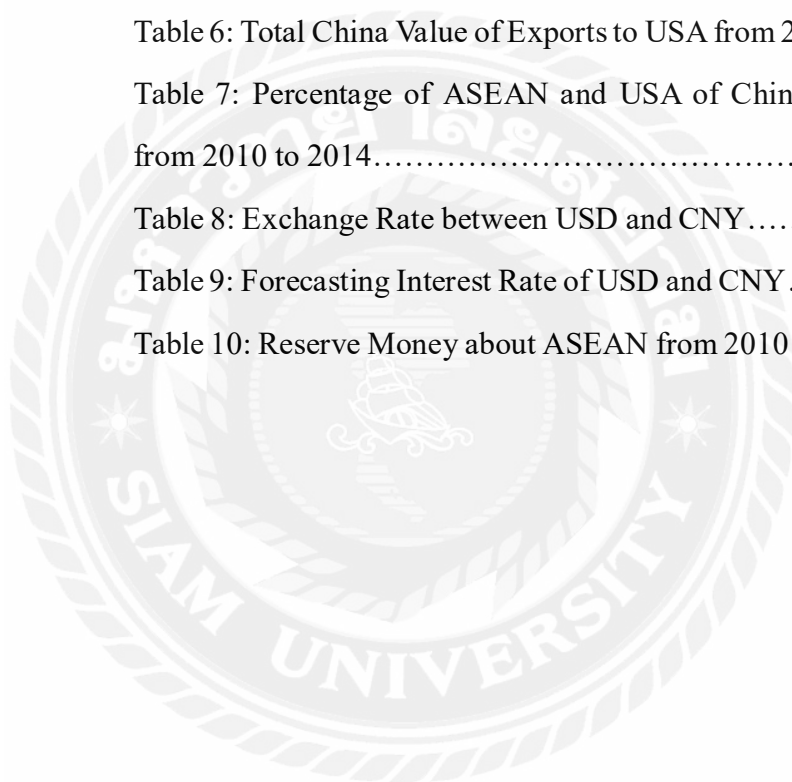
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CHAPTER 1

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 21st 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

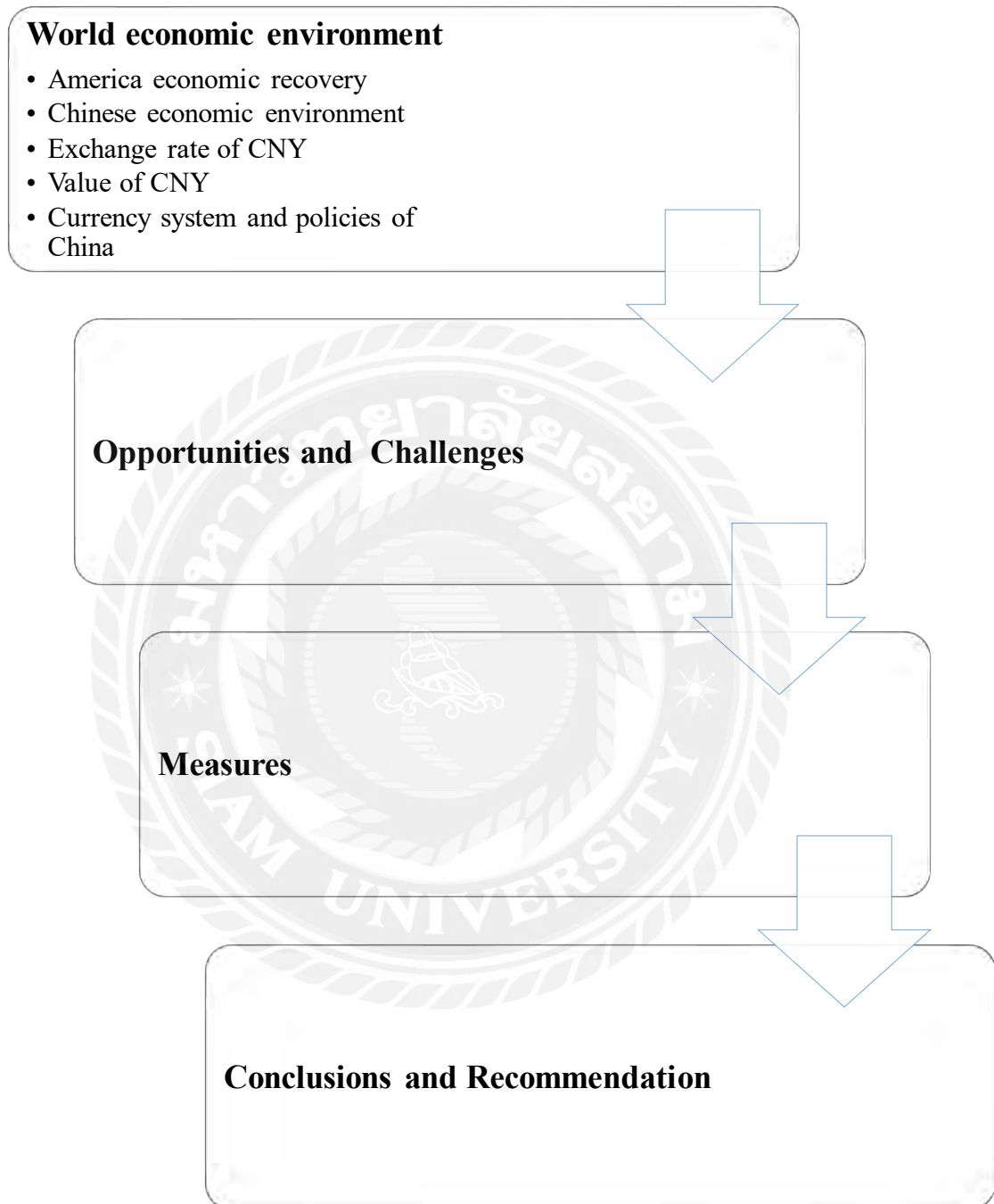
Research is limited to CNY and China. Research bases on basic finance analysis. Research will include several aspect: world economic environment, America economy, China economy, China international trade, CNY, exchange rate of CNY, exchange rate of USD and JPY and EURO, current currency system and policies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

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

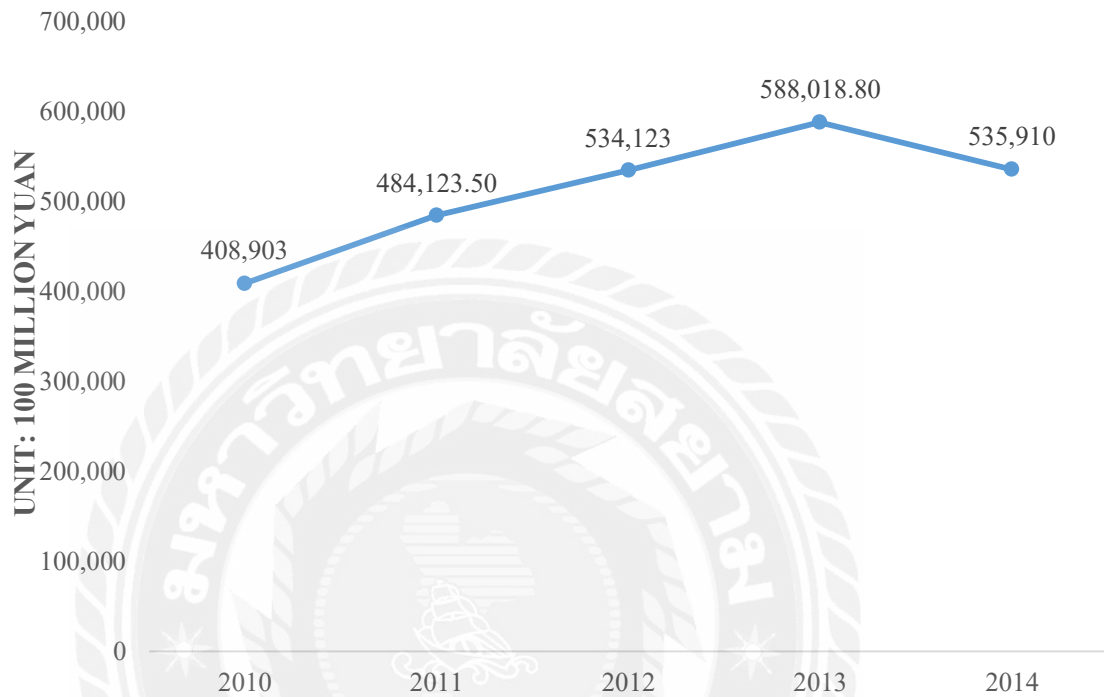
Source: National Bureau of Statistics of China

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 Acquirement 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.

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.

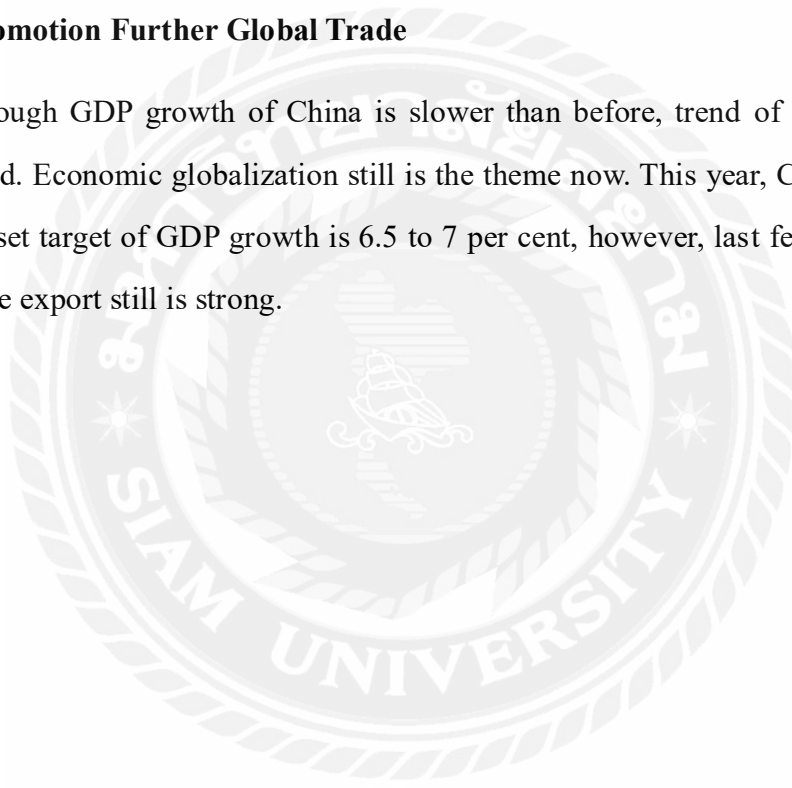
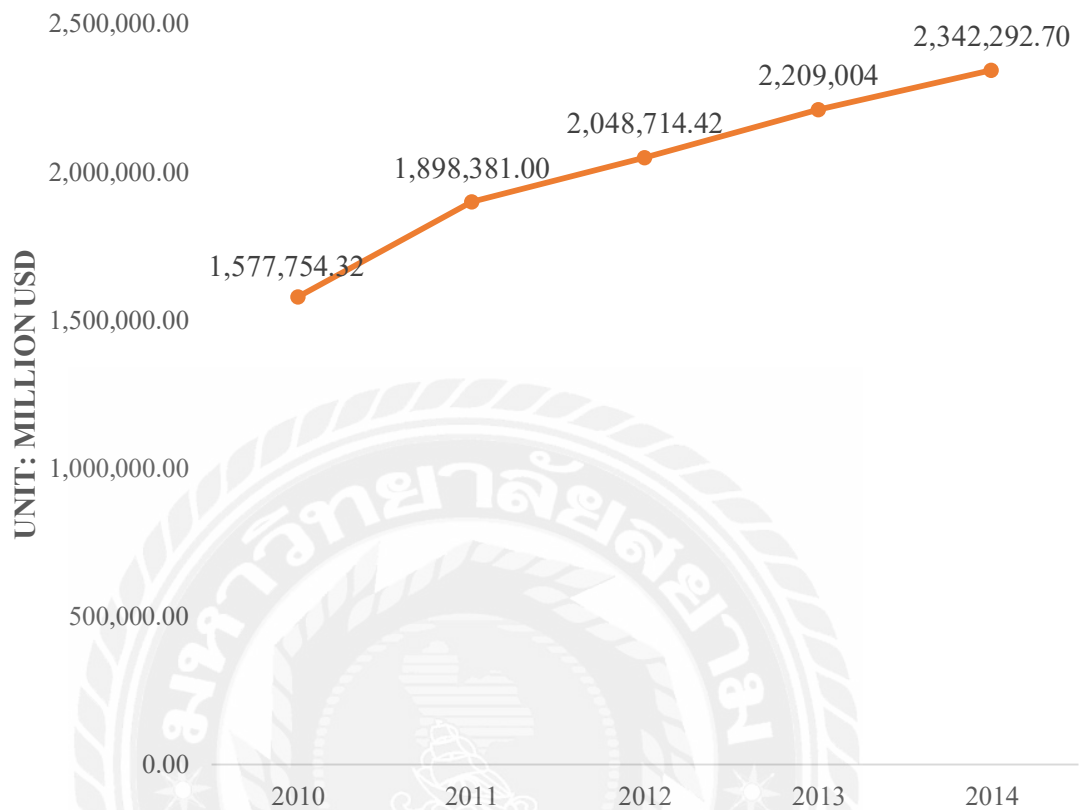


Figure 2: China Value of Exports from 2010 to 2014



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:

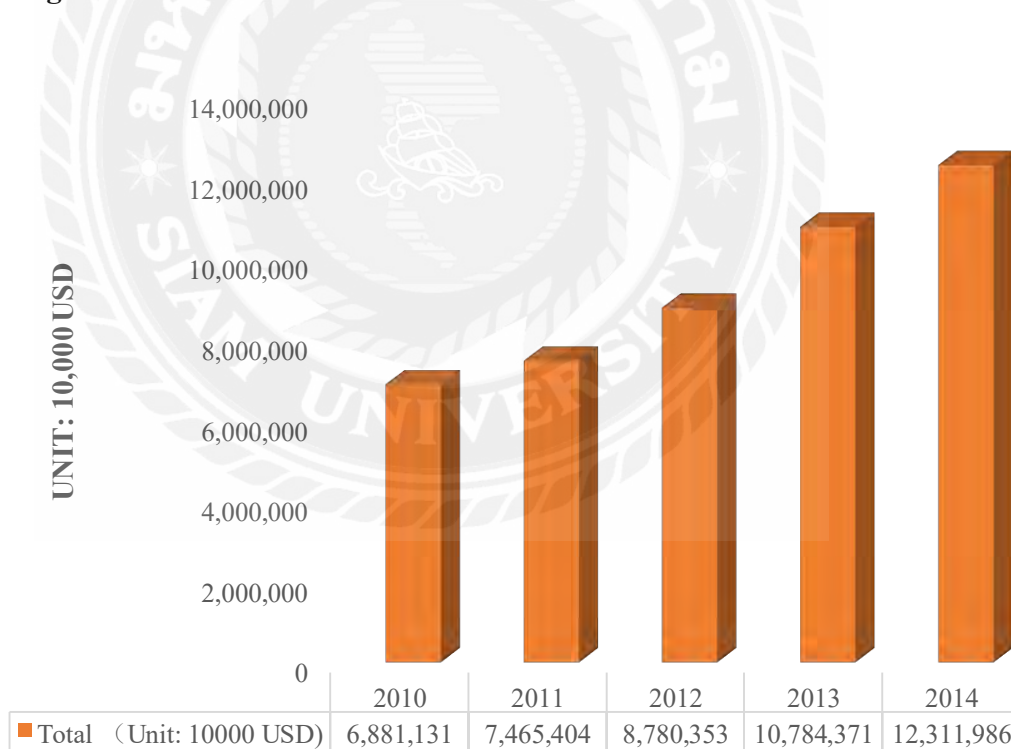
In the situation of world economy recession and America economic recovery, world economy is an unstable position in recent years. At this time, world economy needs a power to lead recovery. And Chinese exports still keeps related strong growth, this brings a hope for world economy. Because with rapid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

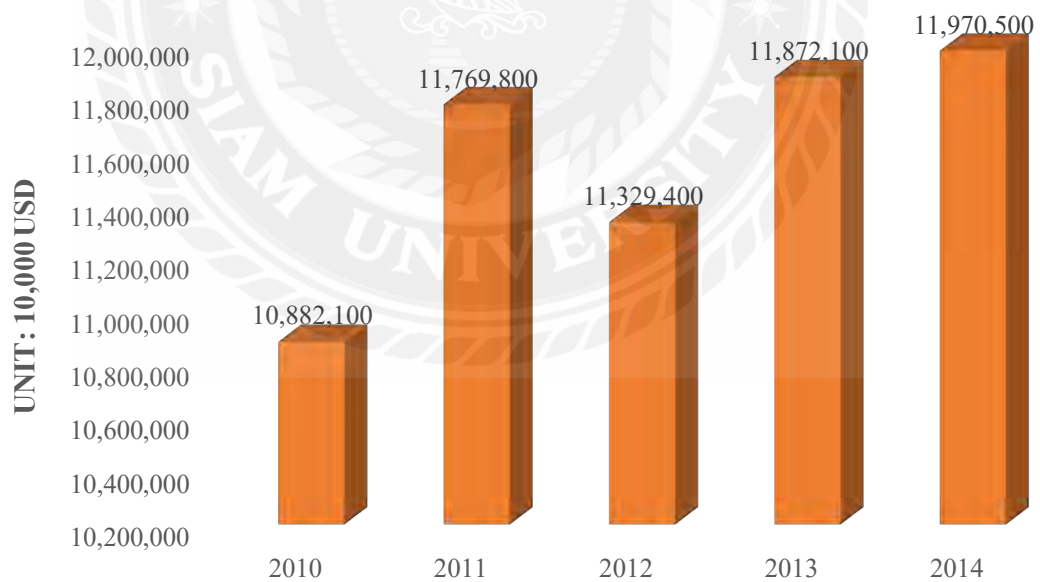
Figure 3 shows overseas direct investment of China was to increase from 2010 to 2014. In the situation of world economy depression, China overseas direct investment still kept

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



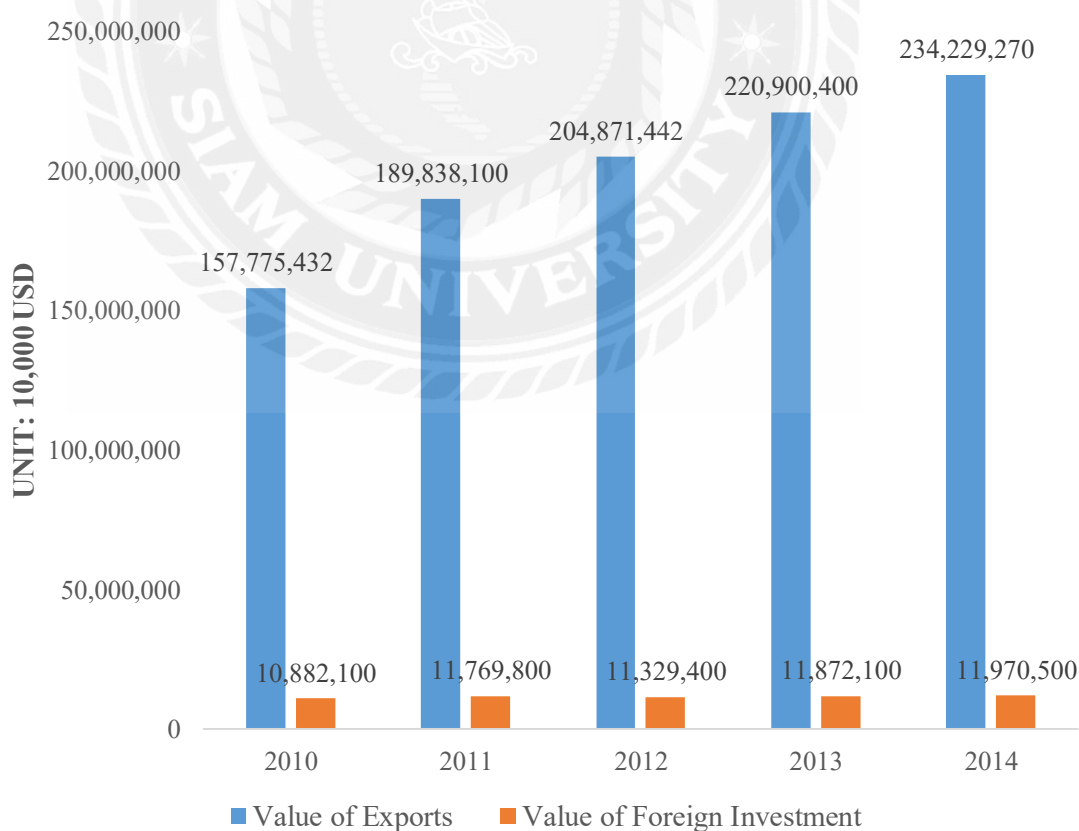
Source: National Bureau of Statistics of China

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

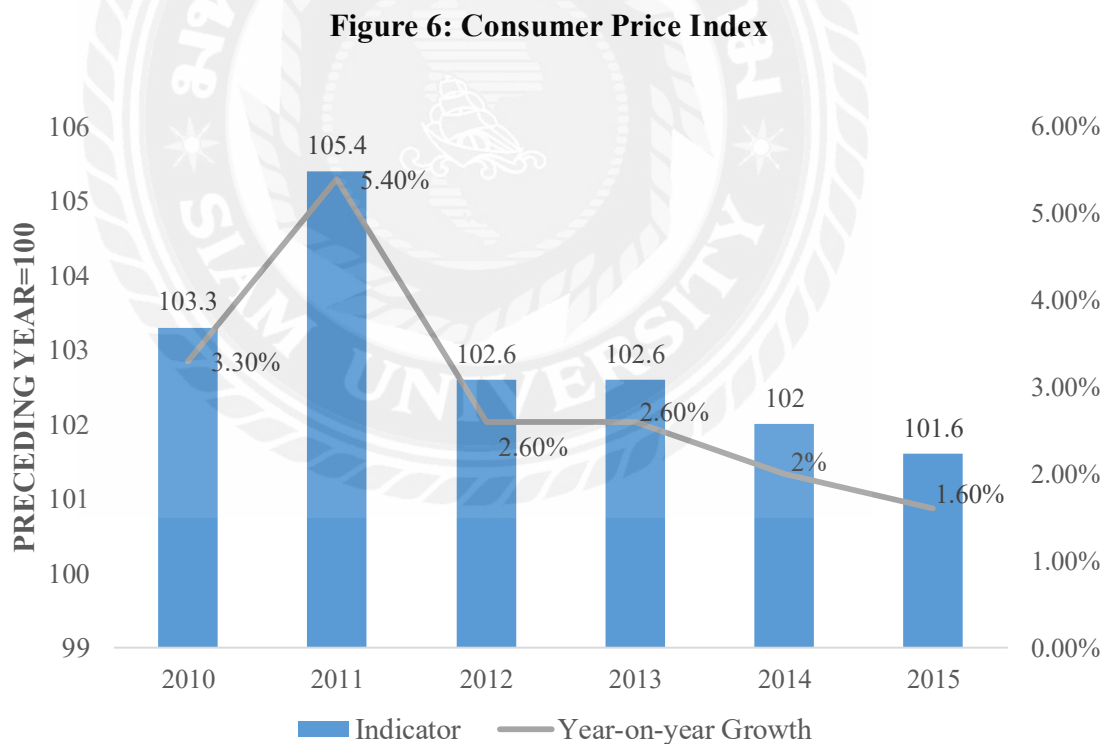


Source: National Bureau of Statistics of China

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



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

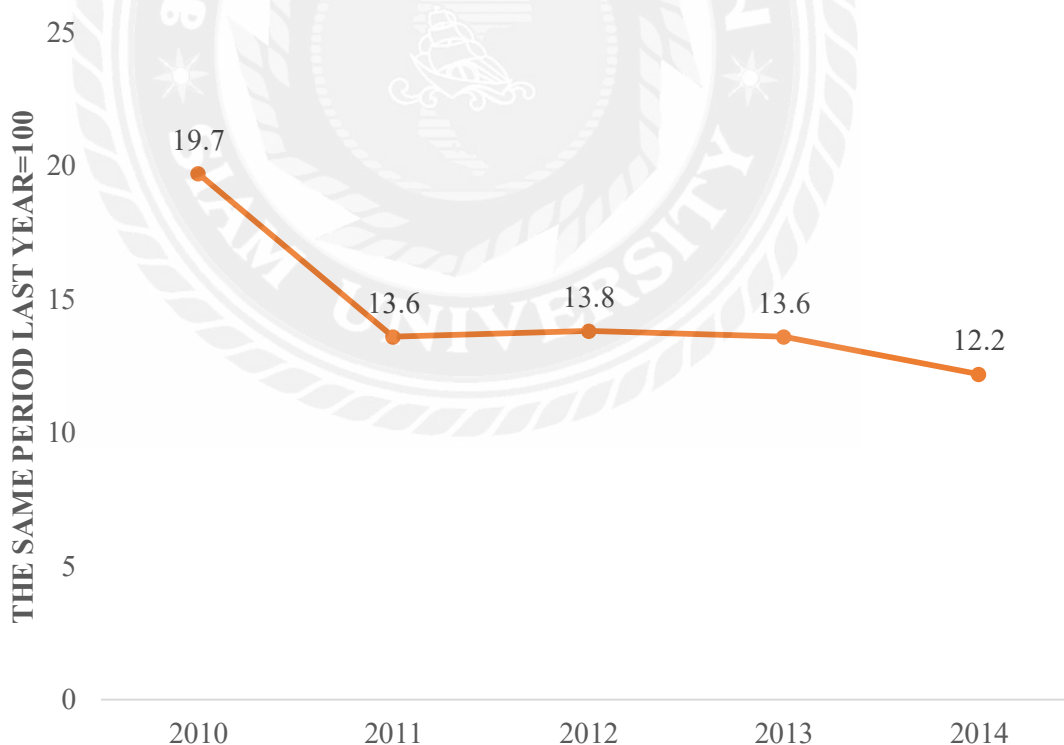
Unit: 100 Million Yuan

<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

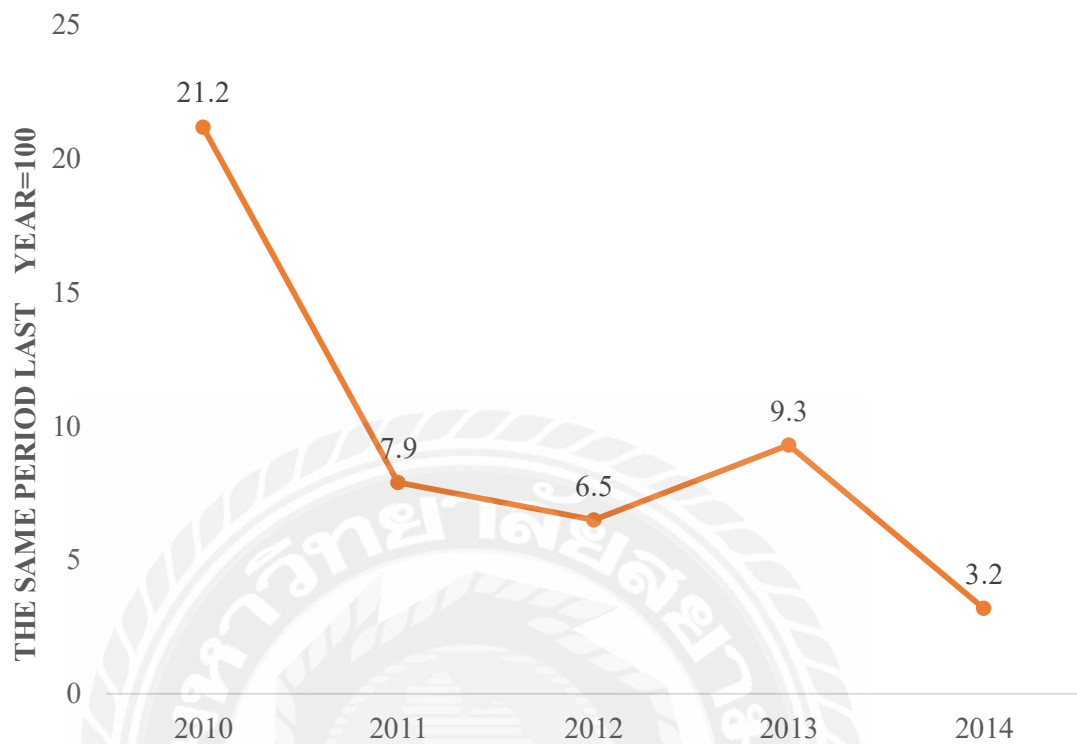
Table 2 and 3 shows that whatever money or quasi-money are, value still kept going up from year 2010 to 2014. But it is known to all, value of currency depends on supply. If supply is too more, value of currency depreciates. However, compare consumer price index, CPI kept going down from year 2010 to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

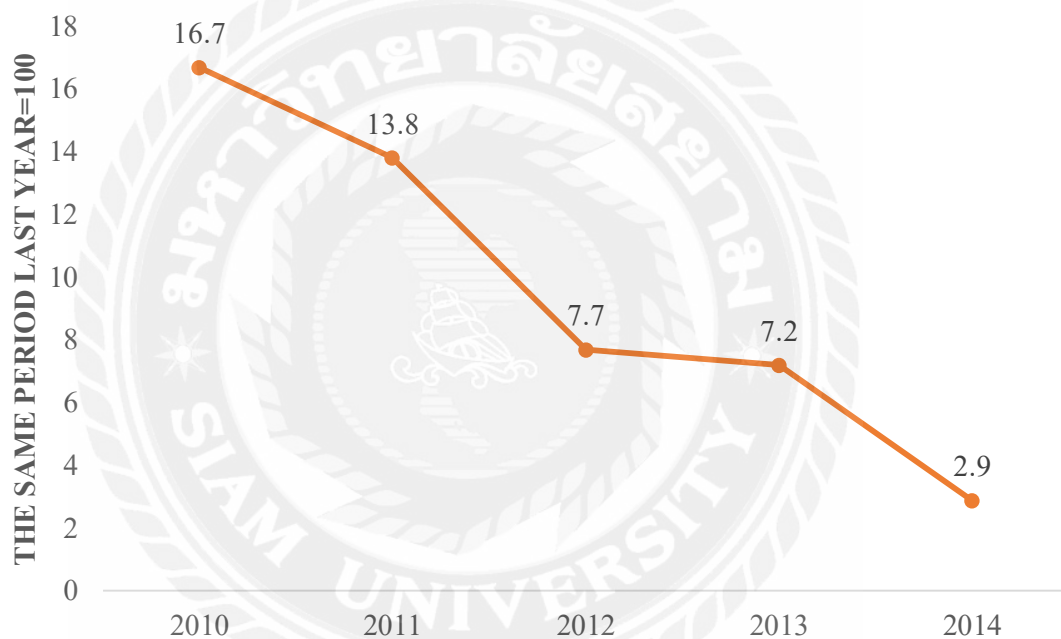
Figure 9 shows growth rate of currency in circulation from year 2010 to 2014 still continued to go down and trend of future is to continue going down. That means currency in market is less and less in future and it will depend on value of currency and capacity of purchase. That is why consumer price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



CHAPTER 4

Challenges

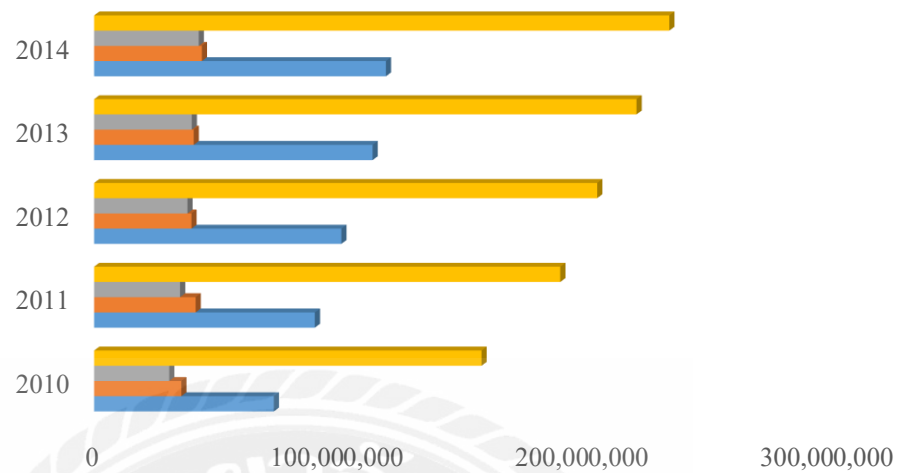
Although CNY succeeded entry basket currencies of IMF and had become international currency and there are many opportunities for CNY in the future, there are also many challenges that CNY has to face and can not be ignored. This chapter will combine some data to analyze what challenges CNY should be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

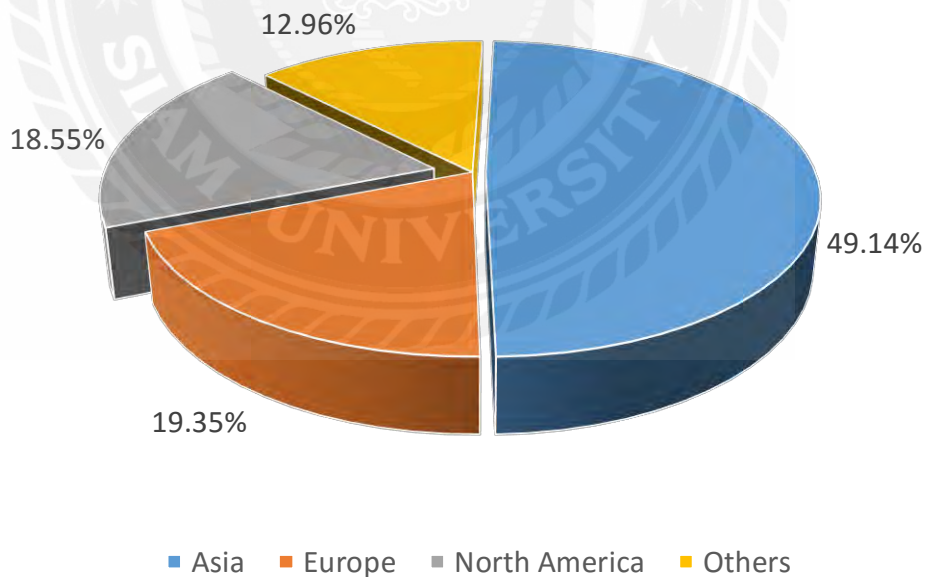
Table 4: Percentage of China Value of Exports

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



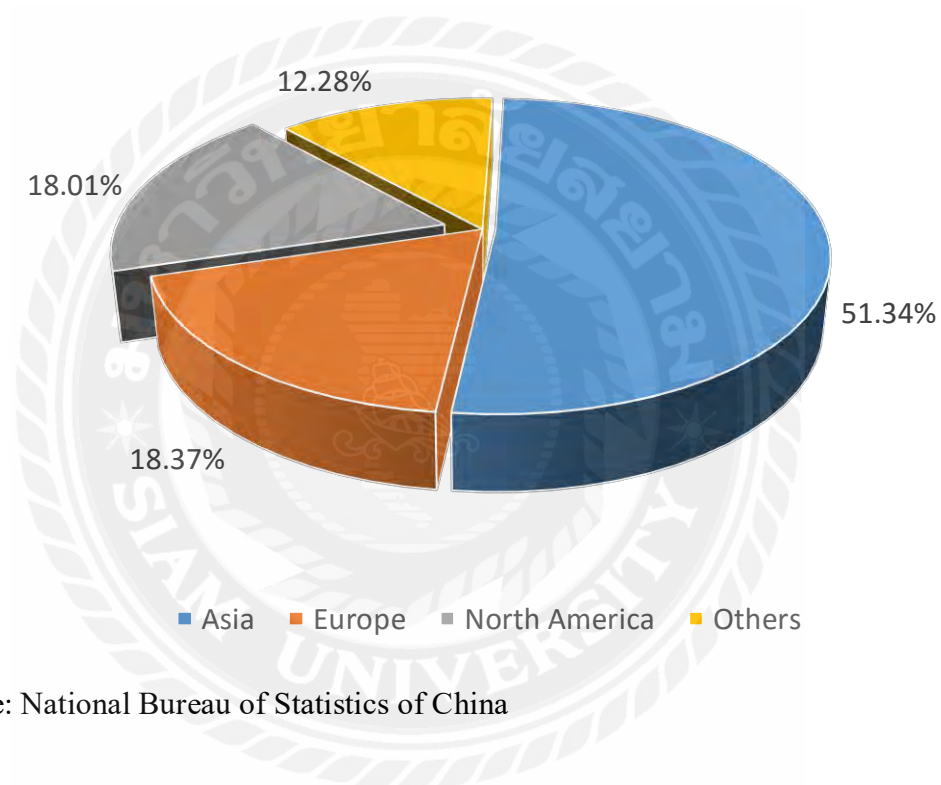
Source: National Bureau of Statistics of China

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**

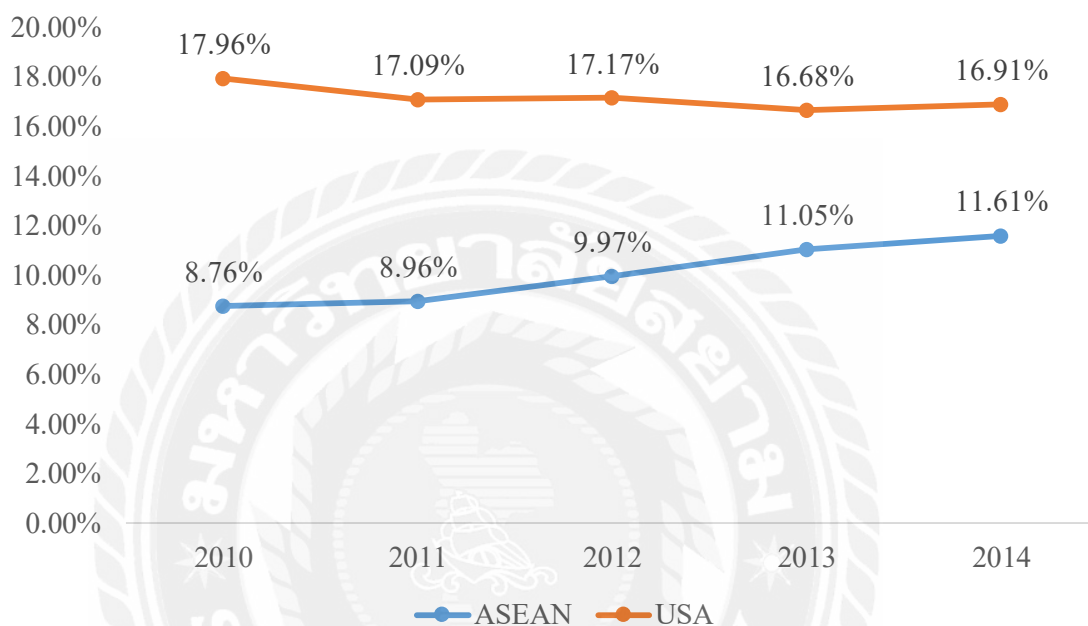
<i>Year</i>	2010	2011	2012	2013	2014
<i>ASEAN</i>	8.76%	8.96%	9.97%	11.05%	11.61%
<i>USA</i>	17.96%	17.09%	17.17%	16.68%	16.91%

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?

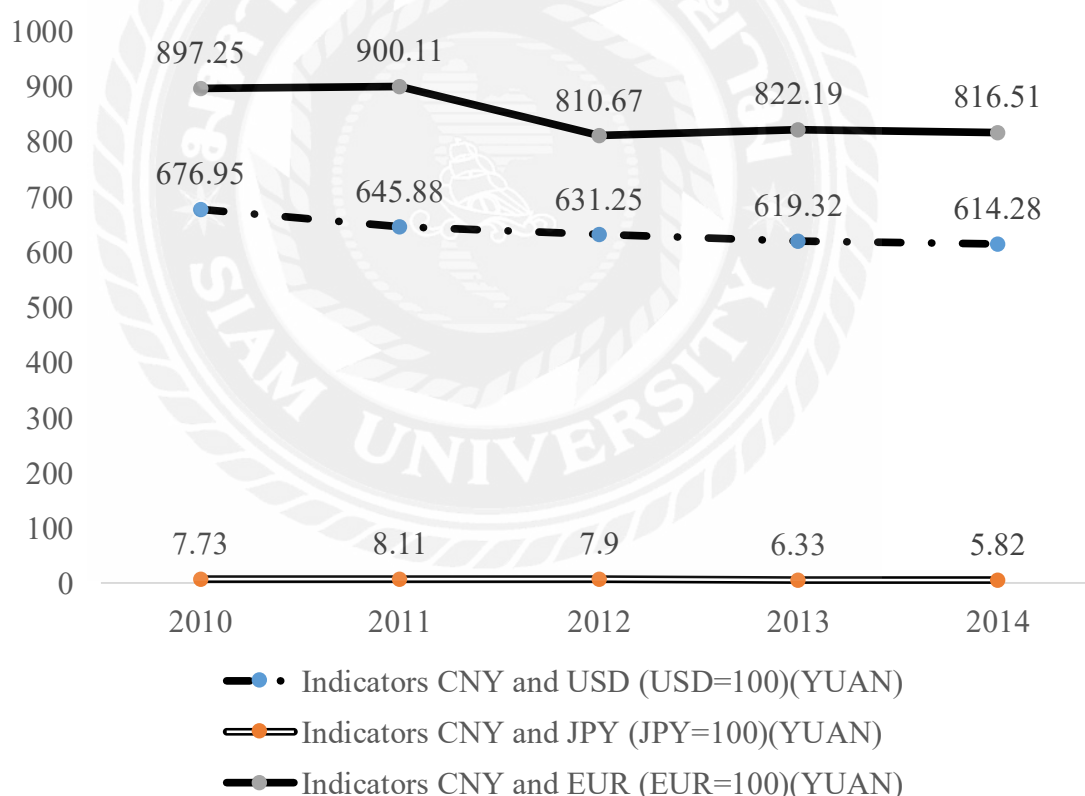
In the background of globalization and CNY internationalization, Chinese currency policies can not avoid to be impacted by other countries' currency policies. This will be a big challenge for China and CNY. And how to perfectly solve this problem also is a big challenge for Chinese government.

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.

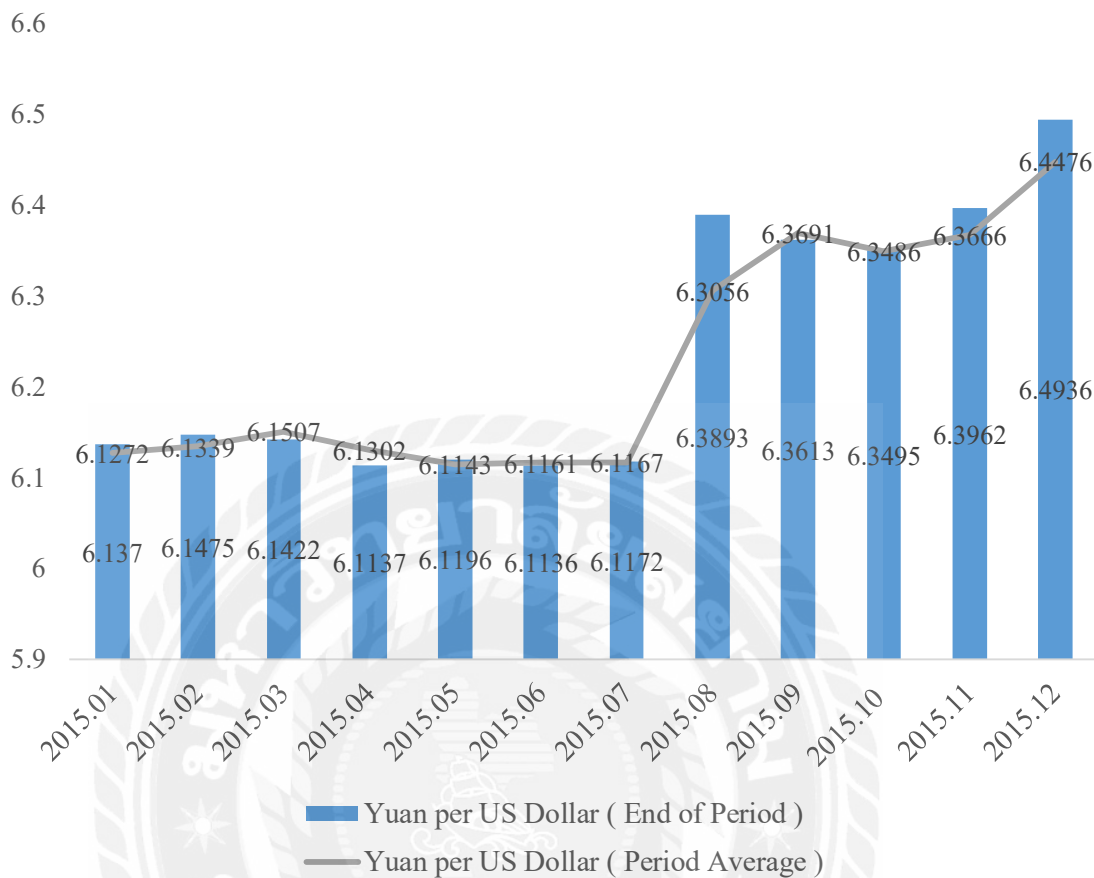
Table 8: Exchange Rate between USD and CNY

<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.

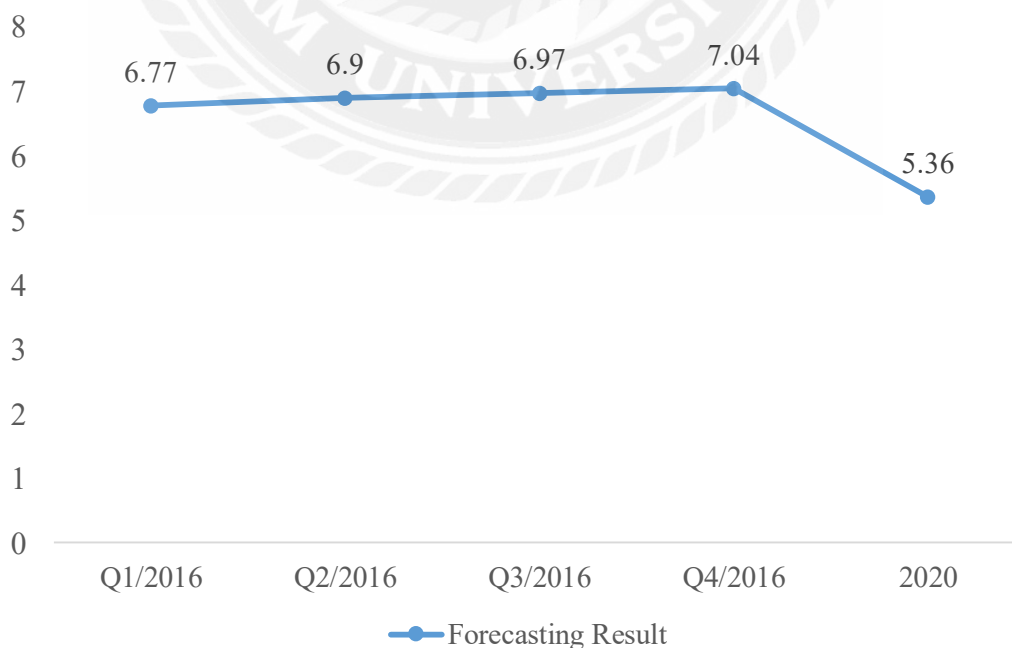
With the Federal Reserve announcement increase interest rate in December last year,

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?

CHAPTER 6

Conclusions and Recommendation

6.1 Conclusions

6.1.1 China Economy Keeping Middle-High Growth

With beginning of comprehensive further reformation of China, China economy still keeps stable and health growth in the future. The thirteen Five-Year Plan make a vision plan for China in the future five years. All of these shows China has enough confidence to stably and healthy develop economy. Purpose of reformation is to make economic structures more reasonable. A more reasonable economic structures can make China economy further develop and keep middle-high growth in long term.

Forecasting announces that China economy will be beyond America economy in final, therefore, world economy relies on China and China economy also relies on world. Analyze various data like GDP, value of exports etc., it has reasons to believe that China economy is not recession current, and China economy just faces period of adjustment. China will begin high speed increase of new turn after finish adjustment.

6.1.2 Coexistence Opportunities and Challenges

CNY internationalized brought opportunities and challenges for China in long term. Opportunities and Challenges coexists in current China and future China. There are two aspects opportunities as follows:

First aspect of opportunity is to promote trade development. It is convenient to other countries to directly transact with CNY after CNY internationalization. Because China value of exports still keep growth every year and percentage of Asia is higher and higher. Asia economic development brings a huge opportunities to China that China can promote CNY internationalization in Asian region first step. Then promote CNY internationalization to other regions based on Asia. To drive China export increases by

promotion CNY internationalization.

Second aspect of opportunity is to establish new situation under the current order. With rapidly development of Asia, especially ASEAN, ASEAN provides a strategy opportunities for China after establishment AEC. Then, agreement of China and Republic of Korea free trade area was further promoted, there are new turn chance of development world economy. China can utilize this chance of CNY internationalized to establish a new situation or new economic order under the current order by CNY comprehensive internationalization and further change trend of economy.

However, challenges also can not be ignored. CNY internationalized touches some benefits of other countries, especially those countries who are members of IMF. In order to protect national benefit, making trouble for CNY becomes inevitable in the future. Various ways including trade conflicts, financial conflicts and currency war will become very normal.

How to correctly face opportunities and how to calmly respond challenges will be a difficult question for China in the background of coexistence opportunities and challenges.

6.1.3 National Strategy Support

Fortunately, there are at least two national strategy to support CNY finishing comprehensive internationalization which are AIIB and “Belt and Road”. Whichever AIIB and “Belt and Road” is, it will help China to further promote economic development and comprehensive CNY internationalization. At the same, it also accords with world economic benefit in long term.

AIIB and “Belt and Road” is coexistence and it doesn’t help China and world without anyone. It could say that strategies of AIIB and “Belt and Road” play an essential role in help to promote comprehensively China economy and CNY internationalization. It even could become strategies of change current rule.

6.1.4 Further Increase Regional Influence

Asia is in a period of rapid development now in the background of world economy

recession. China, who is as the second large economy entity in the world, can drive other Asian countries to develop economy. It can find some data from the table 4. China value of exports to Asia was to increase from year 2010 to 2014, and it means there is higher and higher influence in Asia for China. Therefore, it is easy to suppose that trade between China and other Asian country will be more promoted with CNY internationalization last year.

CNY will be accepted first in Asia and be higher influence in Asia. Rely on Asian market, CNY possesses a huge platform and firm basic to regional internationalization. Then, it can rely on this huge platform and firm basic to further promote comprehensive internationalization with combination new strategy which is AIIB and “Belt and Road” and modern version of alliance east and west to anti-alliance north and south. At the same time, CNY will more improve influence by ways of economy and cooperation making win-win result. To further extend influence from Asia to world and become real international currency which is like position of USD.

In fact, IMF announced that CNY entered basket currencies last year, it is a good news for no matter who China or world is. It shows that China have made good progress in the internationalization of CNY since year 2002. The share of using CNY will be much higher as China is the world’s biggest exporter after CNY internationalization. At the same time, the problem which CNY is underutilized in international transactions and by non-residents will be solved very well and make CNY more influence in the world.

There are many reasons to believe that China can promote CNY comprehensive internationalization and become international currency which is like position of USD by combination various policies and solutions and national strategy. And China economy will never reduce step to develop in the background of CNY internationalization, because CNY internationalized gives China new energy to develop economy and China will be more confidence to face world and world economy.

6.2 Recommendation

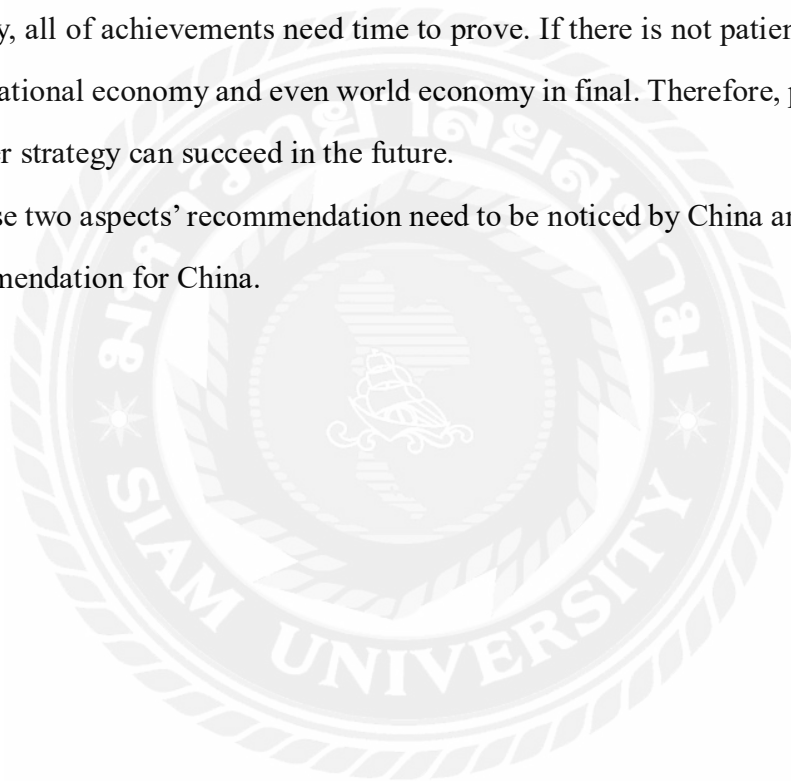
To analyze data and information about China economy, China export and national

strategy, it has reason to believe that China has capacity to develop economy and stably promote CNY internationalization. But there are two factors that China needs to notice.

Firstly, all of these bases on domestic stable. Steady is precondition of development. There are various contradictions in every country. But whatever to do, keeping steady and national secure is the first important thing for every country.

Secondly, development need according to plan and strategy and can not be too impatient. Stable and health development is basic responsibility of China. How to keep stable and health development manifest wisdom of China government. Rome is not built in a day, all of achievements need time to prove. If there is not patient to develop, it will harm national economy and even world economy in final. Therefore, patience will decide whether strategy can succeed in the future.

These two aspects' recommendation need to be noticed by China and these also are my recommendation for China.



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Appendix

1. What is alliance east and west to anti-alliance north and south?

Strategy of alliance east and west to anti-alliance north and south can trace back to the warring states period which was in time of Eastern Zhou Dynasty. That is time of war and destruction each other.

At that time, seven super powers of the warring states period were big states. Seven super powers included Qi state, Chu state, Yan state, Zhao state, Wei state, Han state and Qin state.

Figure 19: Map of the Warring States Period in BC 260



At that time, every state has ambition to unify China, therefore, reformation became main task. Qin state developed very fast after it reformed and became one of super powers in the warring states period. With continuous reformation, Qin state gradually became the most powerful state in the warring states period. In order to stop Qin state, other states allied to defy Qin state from Yan state to Chu state. The orientation is from north to south which included Yan state, Zhao state, Wei state, Han state, Qi state and Chu state. So it was called alliance north and south.

It is too strong to defy for Qin state that six states allied. In order to break this alliance from north to south, Qin state allied with Qi state and Chu state who were big states to defy others by various ways. It was called alliance east and west. Both of them was called alliance east and west to anti-alliance north and south in Chinese history. This strategy was used to destroy other states in special period by military way. So Qin state established a China first unification dynasty whose name is Qin Dynasty by this strategy.

2. What is modern version alliance east and west to anti-alliance north and south?

This new strategy of alliance east and west to anti-alliance north and south is separated with old strategy. There are three aspects' difference as follows:

In the first place, it is different age and background. New strategy based on background of economic globalization and world economy recession. This objective of new strategy is to break the situation of world economy recession and promote China economy further development. The purpose of new strategy is to break strategic block by some countries and establish a new economic order in the world.

In the second place, it relies on economic way. New alliance east and west to anti-alliance north and south relies on economic way to make relationship between countries closer. Utilize economic cooperation maximizes benefit of every countries. Based on AIIB and "Belt and Road" to improve Chinese influence in Asia and even in Europe. It is not like alliance east and west to anti-alliance north and south in the warring states

period, because it doesn't rely on war and it doesn't destroy other countries. It is a peace strategy under the peace condition.

In the third place, it is different thinking mode. It separates zero-sum game with old strategy, this bases on win-win result. New strategy also help other countries to develop when China develops itself at the same time. It seeks to mutual development with those countries who want to speed-up develop and improve level of citizens' life. And to help those countries who suffer difficult now.

There three aspects are different with alliance east and west to anti-alliance north and south in the warring states period in ancient China. In summary, modern version alliance east and west to anti-alliance north and south is a strategy of peace, mutual cooperation and win-win result and breaking block.

Compare with alliance east and west to anti-alliance north and south in the warring states period, new strategy is more dynamic than old strategy. This dynamic means there are more different ways to cooperate which include economic cooperation, bilateral cooperation and multilateral cooperation and comprehensive strategic cooperation etc. And these cooperation involve economy, tourism, service, source of energy and education etc. Various ways are to keep maximum benefit of every side. In other word, this new strategy is to accord with benefit of world and benefit of world development.