

# Opportunities and Challenges of China after CNY Internationalization

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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 CNY formal is international currency from last year. Face this change, it is opportunities and challenges for China after CNY succeeded internationalization. The objective of this article is to analyze the opportunities and challenges which might happen by analysis various data of economy and index. Combine data and problems to advice relevant measure to solve problems. Come to some conclusions in final.

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

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## 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. Asia 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 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.

### 1.3 The scope of study:

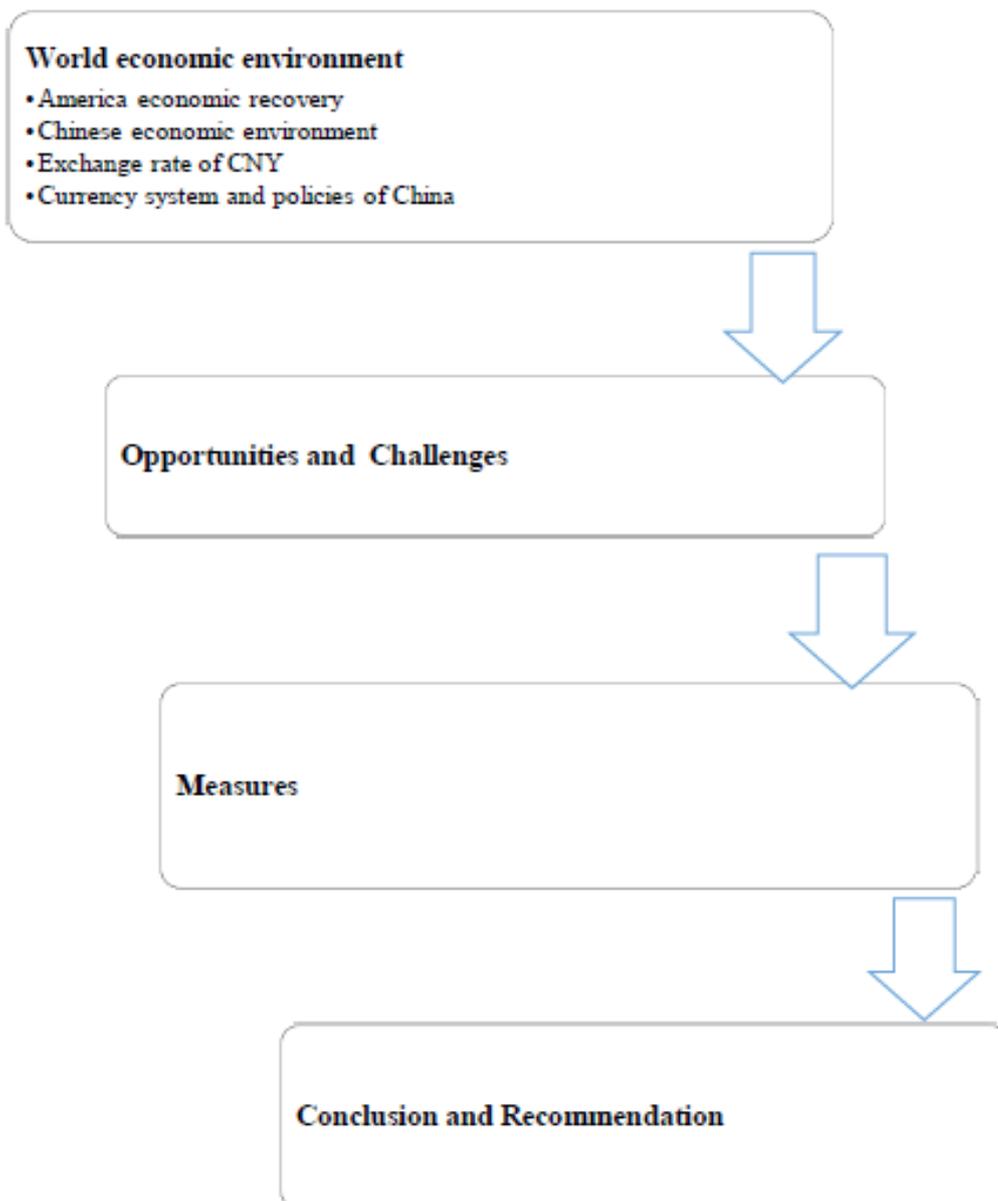
Research is limited to CNY and China. Research bases on basic finance analysis. Research will include several aspect: world economic environment, America economy, China economy, China international trade, CNY, exchange rate of CNY, exchange rate of USD and JPY and EURO, current currency system and policies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

### 1.4 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.

### 1.5 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 conclusion by comprehensive analysis the all opinions.

### **1.6 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.

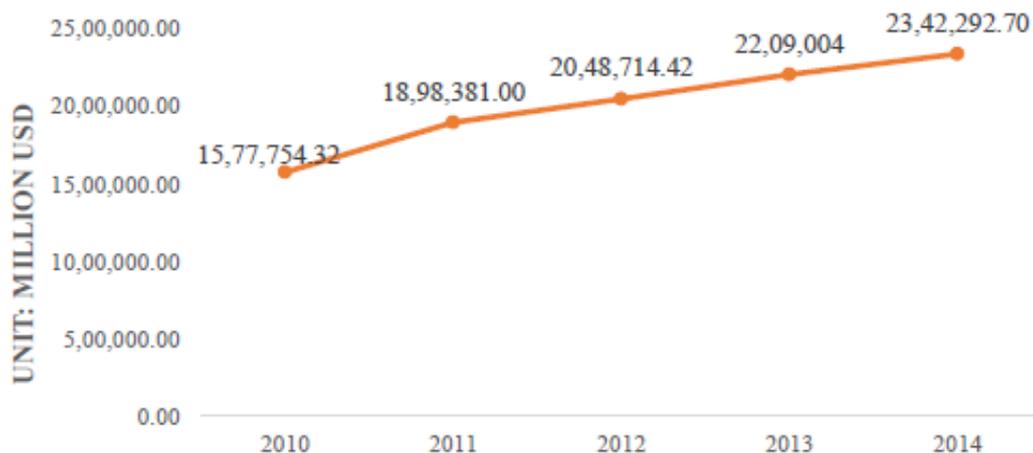
The background of CNY internationalization was China GDP growth was slower and came up with “Belt and Road” strategy and proposed establishment AIIB. Therefore, the new normality of China economy is slower GDP growth. How to perfectly solve this problem became a new challenge for Chinese government.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

## **2. OPPORTUNITIES**

With raise position of China after reformation and open in year 1983, China makes a big contribution to world economy. CNY internationalized is reasonable and inevitable. There are two large opportunities as follows:

### **2.1 Promotion Further Global Trade:**



Source: National Bureau of Statistics of China

**Figure 1: China Total Value of Export from 2010 to 2014**

Figure 1 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.

## 2.2 Promotion China Oversea Direct Investment:



Source: National Bureau of Statistics of China

**Figure 2: China Total Net Oversea Direct Investment from 2010 to 2014**

Figure 2 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 overseas 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 overseas direct investment. And China maybe speed up step of overseas direct investment. For long term, this is a nice expectation for no matter which China or world is.

### 3. CHALLENGES

#### 3.1 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.

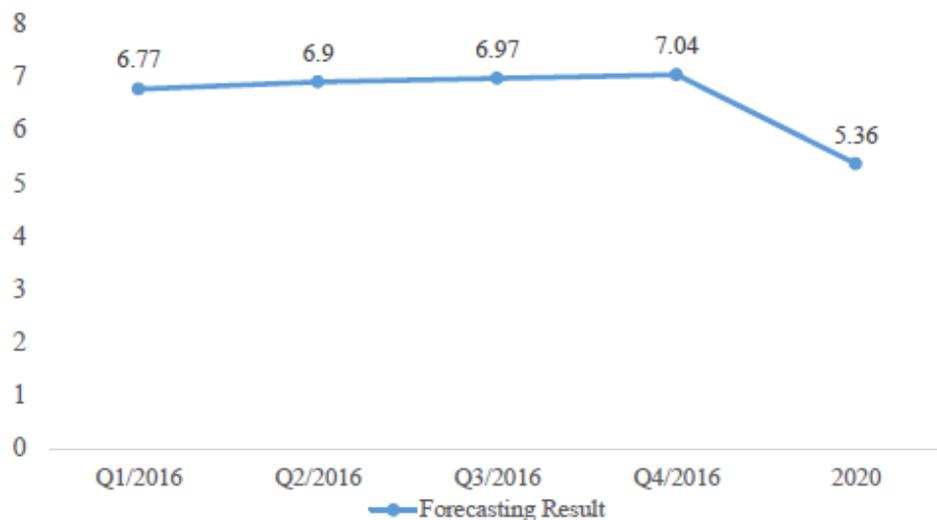
If CNY is not internationalization, CNY's policies just are for domestic to adjust domestic market. However, CNY's policies must flow overseas with CNY internationalization. Other countries must research these policies to respond impacts which CNY internationalization brought. Therefore, other countries 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.

#### 3.2 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.



Source: TRADING ECONOMICS

Figure 3: Forecasting Exchange Rate of USD and CNY

**Table 1: Forecasting Interest Rate of USD and CNY**

<i>Period</i>	<b>Q1/2016</b>	<b>Q2/2016</b>	<b>Q3/2016</b>	<b>Q4/2016</b>	<b>2020</b>
<b>USD</b>	0.5	0.5	0.75	1	4.5
<b>CNY</b>	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?

## 4. CONCLUSION

### 4.1 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.

### 4.2 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.

## 5. 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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