Currency War and the RMB: Monetary Policy, Imbalances, and the Global Reserve Currency System

Abstract

Following a global flood of liquidity from successive quantitative easing, the problems of the perceived undervaluation of the RMB (renminbi, the Chinese yuan) are coming to the fore while China's Western trading partners are still struggling to boost their job markets. A currency war is looming with the US threatening to impose punitive tariff mechanisms which may trigger a global trade war. However, China's current resource-intensive manufactures are already trading at wafer-thin margins and any drastic RMB appreciation is likely to cause catastrophic job losses and social instability. The RMB has in fact appreciated by some 55% since China's first currency reform in 1994. Like the experience of appreciation of the Japanese yen following the Plaza Accord, this magnitude of appreciation has not reversed China's exports or Western imports. Goldstein and Lardy of the Petersen Institute have suggested a three-stage approach of how China could manage RMB appreciation moving to a market-determined exchange rate and an open capital account. However, for China, much more is at stake than economics. She preciously guards her independent exchange and monetary tools to grapple with the multi-faced challenges of social dynamics and geopolitics concomitant with the unchartered course of a rapidly developing, yet transitional economy, now the world's second largest. With rising social tensions, China is expected to change course during her coming 12 Five Year Plan (2011-15), ushering in a more moderate, higher-quality, more balanced and sustainable development model geared to much higher domestic consumption. This promises to diminish her current account surplus and foreign currency reserve over time. While China is ready to liberalize her financial services and to seek a role for the RMB to become more internationalized, she is likely to retain the flexibility of an independent RMB exchange rate and monetary policy, allowing for gradual but measured appreciation and other adjustments in tune with the changing times. China, however, would remain extremely cautious in giving up too soon the protection of a non-convertible capital account in an uncertain world, if past traumatic experience is any guide.

Key Words

RMB, currency war, global imbalances, monetary policy, current account surplus, capital account convertibility, currency internationalization, world reserve currencies

****

Currency War

The term ‘currency war’ was coined in September 2010 by Guido Mantega, Brazil’s Finance Minister. It refers to monetary and exchange rate policies designed to lower the value of one’s currency to gain competitive advantage. As China’s currency, the RMB, is generally regarded as consistently undervalued, and as China’s economy, now the world’s second largest, is now intertwined with many other economies through globalization, it is no wonder that China finds herself at the bull’s-eye of a looming global currency war.

Following a number of similar bills introduced during the Bush Administration (1), a Currency Manipulation Bill was passed in the House of Representatives in September 2010 with a large majority of 348-79, threatening punitive tariffs mechanisms targeting China. While many China-based American businesses view a full-scale currency war between the US and China as counter-productive, a weak job-market with a record-high unemployment rate, depressed wages, struggling manufacturing exports, and declining American economic performance, all tend to be blamed on the RMB as the main culprit. Emotions on Capitol Hill are likely to remain high as China’s exchange rate is seen as not appreciating fast enough in the light of her mounting current account surplus and foreign currency reserve. Nevertheless, no matter how WTO-compatible these bills are set out to be, it remains doubtful whether the US would be able to win the legal battle before a WTO panel and whether it would be worth the risk of politicizing the trade dispute settlement process and triggering copy-cat bills of other trading partners and rising protectionism, if not a full-scale global trade war.

Meanwhile, the US is trying to jump-start her economy with a second round of quantitative easing (QE2) which involves the Fed buying $600 billion more in government bonds over eight months. This has the effect of depressing the value of the greenback, a form of de-valuation. It has led to more capital flows into the Euro, making it much stronger and EU goods relatively less competitive. It has also been dragging down the value of the RMB, which is indirectly linked to the dollar through a managed-floating system. To safeguard their competitiveness, some exporting countries from Japan to Brazil have to intervene to keep their currencies from rising too much as a result of the depreciating dollar. Every country is naturally looking after its own interests and 'Beggar-thy-neighbour' policy is becoming the name of the game.

In addition to the US, the European Central Bank and the International Monetary Fund have also called for a stronger RMB. Other countries including Brazil and India have joined the chorus.

China's riposte is that it would not be fair to ask China to appreciate the RMB while the US is devaluing the greenback by quantitative easing (2).

Another riposte to the US is that even if Chinese products were entirely priced out of the world market by an excessive appreciation of the RMB, this may not succeed in turning the tide of dwindling US exports and jobs. China and the US are essentially not competing in exporting the same kinds of goods and services. Moreover, even in the absence of Chinese imports, US consumers are likely to buy similarly competitively-priced substitutes from other developing countries. The RMB has appreciated by some 55% since China's first currency reform in 1994. This magnitude of appreciation has not helped US exports or reduced Chinese imports. Following the considerable appreciation of the Japanese yen in the wake of the Plaza Accord in 1985, the experience of Japanese exports tells a similar story.

What is more, net exports account for only 8% of China's GDP as a great deal of China's export content is represented by imports of parts, components, materials, proprietary technology and services from other countries. Any appreciation of the RMB will lower the costs of such production inputs to Chinese manufacture, offsetting a significant proportion of the impact of appreciation. So the RMB would have to appreciate even more drastically to have the intended effect.

However, as a result of global pressures for the ‘China Price’, most Chinese products are now trading at very thin margins, often below 5%. A drastic appreciation, as Premier Wen Jiabao has warned, will drive many of Chinese manufacturers out of business, resulting in massive unemployment and social instability. This will be a catastrophe not only for China, but also for the world’s consumers, suppliers and distributors.

So what is at stake is not only the RMB exchange rate, but how trade should remain free and fair between countries and the stability of the global currency system.

The workings of China’s currency and monetary regime

Prior to China’s open-door policy in 1978, the RMB was subject to hermetic exchange control. The exchange rate was kept extremely high, at RMB1.86 to the dollar, to facilitate the importation of plant and machinery to spawn an ‘import-substitution’ model of industrialization. Afterwards, in changing to an export-oriented economy, there followed a continuing movement towards a more market-oriented rate through a series of de-valuations, reaching RMB5.8 to the dollar by 5 July 1986. After the unification on 1 January, 1994 of a dual exchange rate system (with an official exchange rate and an internal settlement/swap market rate), the RMB nominal rate fluctuated within a narrow range around RMB8.28 to the dollar.

From 1994 to 2001, the RMB ***appreciated*** against the dollar by a total of 18% at an average of 3 % annually, without unduly affecting export competitiveness.

On July 21, 2005 China ended the fixed RMB-dollar peg, switching to a peg to a basket of currencies, including mainly the US dollar, the Euro, the Japanese yen, and the Korean won.

Between July 2005 to the end of 2008, the RMB was allowed to ***appreciate*** by 21% against the dollar. Nevertheless, during this period, China's current account surplus continued to expand rapidly.

On June 19, 2010, the RMB returned to a managed floating exchange rate regime with reference to a basket of currencies. Under this regime, the RMB spot exchange rate can move intra-day +/- 0.5 % from a central parity.

An increasingly undervalued currency leads to an ever-increasing current account surplus and continuing enlargement of foreign exchange reserve. It necessitates regular sterilization via the sale of central bank bills and increases in reserve ratio requirements for commercial banks. This acts as a tax on these banks, which have to be assisted in their profitability by widening the margin above the deposit rate. As lending rates have to be kept low to spur export growth, the deposit rate is kept extremely low under a mandated interest rate regime. Additionally, there is a fear that raising the level of interest rates would attract unwelcome capital inflows in one form or another, which would be difficult to sterilize.

An analysis by Morris Goldstein and Nicholas Lardy of the Petersen Institute for International Economics (3) finds that in 2003, when China's global current account surplus stood at 3% of GDP, the RMB undervaluation was estimated at 15-20%. By 2007, when China's global current account surplus reached 11% of GDP, the undervaluation was 'conservatively' estimated at 30-40%.

According to Goldstein and Lardy, the existing currency regime has a number of economic disadvantages, including:

(a) inhibiting monetary policy flexibility;
(b) distorting investment decisions eschewed towards manufacturing at the expense of services;

(c) hindering the transition to a more consumption-driven economy;
(d) reducing household income (of which interest receipts are an important component) which impedes progress towards a truly commercial banking system;
(e) continuing a monetary disequilibrium which perpetuates China's external imbalance.

The two authors recommend a three-stage approach:

(1) During the current global recession, China should avoid competitive devaluation and the continuance of tax rebates promoting resource-intensive exports; increase expenditure on physical infrastructure such as rail network, power grids, urban subways and water treatment facilities; and increase government consumption expenditure and social outlays in education, health and pensions. The RMB should continue to be allowed to appreciate about 4-5 % a year while the daily exchange rate fluctuation limit should be raised to 1 or 1.5%;

(2) When the world economy begins to recover and China converges towards long-term sustainable growth, the government should allow the RMB to appreciate sufficiently rapidly to eliminate any large current account surplus within three or four years. Government intervention in the exchange market should be reduced, along with its sterilization operations. Gradual liberalization of incoming and outgoing capital flows should continue. Interest rate liberalization should resume and domestic debate should focus on greater central bank independence and the merits of an inflation targeting approach.

(3) Finally, when China's global current account surplus has been drastically reduced, exchange rate intervention and sterilization operations should be curtailed further. The daily fluctuation limit should be abolished to allow the RMB to 'float' freely. Monetary policy should continue to evolve towards inflation

targeting with further substantial liberalization of capital flow restrictions.

The authors recommend working more cooperatively with the IMF in pursuing their three-stage approach, which they believe will enable China to achieve ‘a truly market-determined exchange rate, an effective framework for independent monetary policy, a more open capital account, and a more harmonious relationship with its trading partners’.

Considering that the three-stages cannot be precisely defined, it is evident that China’s own approach has already embodied virtually all the elements highlighted in stage one of the Goldstein-Lardy formula. However, it is doubtful whether China will necessarily follow the other more drastic measures in the way recommended.

First, the fixation on exchange rate appreciation misses the important objective of maintaining an inflation-targeting monetary policy that would counteract boom-and-bust cycles (4). However, what is an even more important imperative to China is the guarding of true monetary and exchange rate independence or sovereignty in grappling with her many other challenges in maintaining social stability. Second, the rigid inflation targeting approach as adopted in the EU is subject to growing debate in the wake of the global financial crisis. Third, learning from bitter experience both in China and elsewhere, China is generally skeptical about a Western big-bang or hard-and-fast approach to problem solving. As a transitional market economy, she is likely to continue to follow a more measured and trial-by-error approach, ‘groping for stepping stones in crossing a river’.

Moreover, China’s next Five Year Plan (2011-15) is expected to shift her economic model towards building a more balanced and sustainable society. This would entail greater economic equality, social justice, technological upgrading, innovation, ecological conservation, agricultural productivity, regional balance, and domestic consumption. This economic shift is poised to result in more moderate export growth as well as a lower GDP growth rate with a much reduced current account surplus.

The current prognosis is that on monetary policy to promote a more consumption-oriented economy, China is likely to allow the RMB to appreciate gradually, say, by a few percentage points a year, adjusting the pace and extent in the light of changing circumstances. To control inflation, she is likely to rein in the liquidity through a flexible arsenal of monetary, fiscal and administrative measures.

International chess

The ***International Monetary Fund (IMF)*** 2010 Article IV Consultation Staff Report on China dated 9 July 2010 (5) found that over the past two years, China's current account surplus had almost halved as global demand collapsed while China's imports of commodities and capital goods continued unabated. However, as external demand recovers, larger current account surpluses were likely to recur. Meanwhile, the RMB real exchange rate was back to the late 1990's average level while China had since had significantly higher productivity than her trading partners. The RMB therefore remained substantially below the level consistent with medium-term fundamentals.

However, China reckoned that the current account surplus would settle at about 4 % of GDP over the medium term as ongoing structural reforms, rising wages, and recent RMB appreciation would combine to boost consumption while continued fast growth was expected to shrink the current account surplus as a share of GDP. If this forecast proved accurate, the resulting undervaluation would be negligible.

China maintained that it was purely arbitrary to judge the current level of the exchange rate by referencing a particular point in time when the currency may or may not have been in equilibrium. In particular, the currency was currently more than 50 % stronger than when the exchange rate was unified in 1994 and 22 % higher than at its recent low point in

2005. Moreover, the real exchange rate had been very flexible over the past decade, moving significantly in both directions.

IMF Staff agreed that comparison to any one point in time could indeed be deceptive. However, the RMB real exchange rate was back to the level in 1999–2003, a period when there did not appear to be any decisive imbalance in the external accounts. In the interim, China's cumulative productivity differentials had been substantial.

On another front, the ***U.S. Treasury***, in its much-awaited report on 5 February 2011, while refraining from labeling China a currency manipulator, took a tougher line than in past years, saying the RMB is "substantially undervalued," warning "progress thus far is insufficient and that more rapid progress is needed."

At the ***G20 Finance Summit in Paris*** on 20 February, 2011, a fudged agreement was reached on indicators for monitoring global trade and currency imbalances, including public and private debt, deficits, and savings rates. The sticking point of exchange rates was not included but would be considered as part of the current account analysis. Likewise, the issue of foreign currency reserves was not separated listed.

Economy more than economics

The international debate so far is based on the classical consensus that for a market economy to mature, it is necessary to achieve full convertibility in the capital account if its currency is to become internationally convertible. There is a tendency to subsume currency internationalization under currency convertibility. What is more, albeit quite understandably, the whole range of issues from exchange rates to currency reserves, current account surpluses, and monetary policy, are discussed almost exclusively in the context of economics. However, for a transitional and rapidly rising power like China with a host of unprecedented challenges, contradictions, and threats to her stability, ‘the economy is too serious a matter to be left entirely to economists’, to paraphrase Clemenceau.

The above quote actually appears in the November 2010 issue of *China Analysis*, a publication of the European Council on Foreign Relations (6), where Francois Godement *et al*. unveil an interesting panoply of geopolitical considerations.

All of the Chinese academics quoted by the contributors agree on the need for ***RMB internationalization***. However their reason is not just for China’s financial expansion but also to escape perceived currency manipulation by the United States as the issuer of the world’s leading fiat currency which is also a preferred international reserve currency.

For background, it would be useful first to visit an April, 2005 article *Our Currency, Your Problem* for the Hoover Institution by Niall Ferguson (7). He reckoned that the Bush administration’s combination of tax cuts and a global war on terror was being financed with a multibillion-dollar overdraft facility at the People’s Bank of China (through China’s huge purchase of Treasury bills), a kind of Chinese ‘tribute’ to the ‘American Empire’. In April, 2009, Paul Krugman, New York Times Op-ed columnist and Novel Prize laureate, calls this ‘China’s Dollar Trap’ (8).

As Godement points out, ‘since 1944, the dollar has lost 97% of its value against gold. The US has repeatedly made abrupt and rapid variations in the value of the dollar against other major currencies – some of the writers put this margin at 30% per year – in the service of its own economic interests’. Now, the Fed continues to devalue the greenback by printing money via successive ‘quantitative easing’. Imagine how China feels about her mountain of Treasury bills. No wonder on 13 March, 2009, Premier Wen Jiabao openly aired his worries about China’s $1 trillion investment in US Treasuries (9). It may be a sign of China’s rising economic nationalism but US monetary policy is seen by some in China as a central pillar of US economic hegemony and the ***floating rate*** as 'a mechanism for plunder'.

In the *Asia Analysis* issue, He Zhicheng, an old timer from the Agricultural Bank of China, argues in a similar vein. He takes the view that exchange rates reflect the comparative value of labour. A Toyota (unskilled) employee, for example, earns 800 RMB (120 dollars) a month in Dongguan and 28,000 RMB (4,200 dollars) in Japan. So a free-floating rate is a "trap" for China, because it lets foreign contractors determine the value of Chinese labour. In other words, a free-floating rate would surrender China's sovereignty of determining the rate to the international market place. Don't forget that the RMB exchange rate is in the very heart of China's economy, which underpins the nation's political survival. With this overarching consideration in mind, the idea that exchange rates are fixed through the market in response to some rational criteria is regarded by some in China as a myth of quantitative economics.

How does China go about internationalizing the RMB? First, as China is at the center of a global production chain and has become the leading trading partner of many countries, the RMB is being encouraged as a means for international settlements. As Godement points out, China is trying to replace the dollar with the RMB as the currency for doing business with her trade partners. Second, RMB-denominated bonds are being issued, using Hong Kong in the first instance as a launching platform. Third, in addition to her manufactured goods, China is quietly promoting the export of her capital, through acquisition of foreign assets and resources as well as overseas joint-ventures and other business partnerships. This would serve to expand China's international business network.

This way, China is silently building up a diffuse monetary zone of her own, in a manner which Chen Daofu, director of the Institute of Financial Studies at the Centre for Development Studies, the State Council of the People's Republic of China, compares to what the ancient

Chinese poet Du Fu described as ‘Nature moistens quietly.” (润物细无声, *runwu xi wusheng)*. As pointed out by Godement, ‘This kind of internationalization by stealth is based on the requirements of political realities – any other approach could see internationalization swiftly “stifled in the cradle” (被扼杀在摇篮里, *bei esha zai yaolan li)*. Chen says that China must retain control over exchanges between its domestic economy and the outside world, along with its restrictions on foreign currency holdings by Chinese enterprises. At the same time, China must provide the renminbi with an external market – and so anchor the country in its own de facto currency zone.’

But RMB internationalization is not a no-brainer. The direction is still ambivalent. Godement summarizes both sides of the story:

‘Internationalizing the renminbi will help China’s influence to grow; it will strengthen the international mobility of its capital and so enhance its investments. It will reduce the vulnerability of its reserves, mitigate the impact of the huge fluctuations in the dollar exchange rates, decrease the power of Western financial centres, and create revenue for China from transactions in its currency. But rapid internationalization could have its own drawbacks, and some methods of carrying it out could prove dangerous. Changes in the international monetary system tend to be prolonged and perilous, as can be seen from the history of the euro and the Japanese yen.’

Let’s now turn to ***capital account convertibility***.

The sudden tsunami of the global financial crisis was a nightmare to China’s economy threatening thousands of factory closures leading to a catastrophic loss of jobs and social instability. In the end, China was saved even before she launched a gigantic stimulus package. As the RMB was non-convertible and there was tight exchange control, she was spared a great deal of the cross-border subprime toxicity right from the beginning. This reinforces China's memory of the 1997 Asian financial crisis. As her Asian neighbours fell like dominos, China remained a stalwart of financial stability, still remembered by the international community for her decision not to devalue the RMB, thanks in no small measure to her non-convertible capital account. So even at the risk of hindering her financial expansion, China as a market economy in transition in an uncertain world would remain hesitant in giving up this precious firewall.

With instant globalized connectivity, currency security is even more critical than climate and energy security. In addition to the global financial crisis, the emergence of a European sovereign debt crisis is another reminder of the importance of global financial stability. At the heart of this stability is the ***world reserve currency system***.

The need for a more stable international currency system was earlier highlighted by Zhou Xiaochuan, the Governor of the People's Bank of China on 23 March, 2009 (10). He referred to the so-called 'Triffin Dilemma', first identified by a Belgian-American economist in the 1960s. Robert Triffin opined that global reserve currency-issuing countries have to suffer large trade deficits in order to supply the world with enough of its currency to fulfill the world demand for foreign exchange reserves. This leads to a conflict of interests as well as tension between what are national monetary policy imperatives of the reserve currency issuing country and what is best for global currency stability. To address this dilemma, Zhou proposed using Special Drawing Rights (SDR) of the IMF to replace the US dollar as a primary reserve currency.

While the SDR idea may not be the ideal solution and is difficult to gain international consensus, the declining and uncertain value of the dollar as a stable long-term storage of value is increasingly being called into question. At the same time, the momentum for the international acceptability of the RMB is gathering pace as China has overtaken Japan as the world's second largest economy. The RMB's security and prospects for appreciation are being bolstered by China's gigantic foreign currency reserve.

Nevertheless, as I have explained earlier, China would be hard-pressed to give up the protection of her non-convertible capital account. As mentioned in *Asian Analysis*, before the advent of the euro, Germany was able to internationalize the deutschmark without entirely giving up control over capital movements and without switching completely to a floating exchange rate. Ding Zhijie, a co-director of the College of Finance at the Chinese University of Economics and Foreign Trade, calls for Article 8 of the IMF to be amended so that the currencies joining the SDR basket would only have to make their current accounts, and not their capital accounts, convertible. As China's economy is expected to overtake the US economy by 2027 or thereabouts (11), the days when the RMB emerges as one of the world's reserve currencies no longer seem too far away.

The above discourse shows that exchange rates, monetary policies and reserve currencies often could be regarded as quiet tools for 'plunder', a kind of 'currency war' by stealth. However, all this rivalry and tension camouflages serious ***systemic imbalances*** which have caused many of the world's crises and conflicts.

Well before the financial crisis, the world was already in a huge economic imbalance. Asian exporting countries' mounting surpluses were sterilized and fed into the West's financial system through investment in US Treasuries, making for perennially low interest rates and easy credit, much of it highly-leveraged, feeding unbridled consumption. This in turn pushed up Asian countries' exports and surpluses, with the result that more was invested in US Treasuries to fund even more debt-driven consumption. In short, the West, particularly the US, is over-consuming and China and some other surplus countries, are over-saving. When the whole pack of cards collapsed from the financial crisis, rather than curbing consumption (which would have worsened the economic downturn), the West tried to jump-start it again with a massive dose of liquidity. The outcome so far is by no means reassuring.

Meanwhile, the West has been admonishing China for not spending or importing enough. However, for strategic reasons, many non-military technologies, which would have restored some of the trade imbalance, were restricted from China.

Learning from her vulnerability in a global financial crisis, China has been putting more and more emphasis on boosting domestic consumption in order to achieve a more balanced economy. Studies by Credit Suisse and Mckinsey have highlighted the burgeoning consumer market in China and how it will account for a lion's share of global consumer growth in the coming decades (12). By 2025, China's consumer market will be supported by 350 million more urbanites in 221 new cities each with over one million population, according to a McKinsey research paper (13).

On her part, America is also beginning to save more as people prefer to pay down their debt rather than risking another bout of reckless debt-driven consumption. The US is also trying to grow her economy by investing more in improving her physical infrastructure. So a rebalancing may already be taking place, according to Stephen Roach, Chairman of Morgan Stanley Asia in his book *The Next Asia* (14).

Conclusion

According to the 2010 edition of the China Rich List, there are currently more than 550,000 households with private wealth more than 100 million RMB; over 1,900 households with more than 1 billion RMB; and 140 private fortunes of more than 10 billion RMB (1.5 billion dollars). China's total private wealth therefore is estimated to exceed the value of the country's foreign exchange reserves. A survey by the Pew Research Centre last year suggested 87% of Chinese were satisfied with "the way things were going" in their country.

Yet, the perennial Chinese paradox is that with a population the size of a fifth of mankind, China is still a very poor country, with per capita income ranking one hundredth amongst some of the poorest countries in Africa. There is a rising undercurrent of discontent due to galloping prices, irregular land grabs, labour disputes, on-going pollution, corruption, inequality, and social injustice. With a rising, more educated and internet-savvy middle class, all these bubbly grievances could become a spark that could ignite a fire, as what is happening across the Middle East.

So it is opportune that at the start of the second decade of the 21st century, having grown to become the world's second largest economy, China is changing course to address her glaring imbalances. The new economic model is set to rely less on resource-intensive exports. China will be geared to become greener and more high-value added. Social provision including healthcare, education and pensions, which have already registered 'impressive gain' according to Goldstein and Lardy (15) , will be further enhanced. Governance and social justice are vaulted to be strengthened. Consumption is likely to see explosive growth, especially in the second and third-tier areas in the inner provinces where most of China's new urbanites will be located. More will be learnt from the coming 12th Five Year Plan (2011-15).

While the test of the pudding remains in the eating, this new development model, if realized, is likely to diminish China's current account surplus, moderate her foreign currency reserve, and reduce pressures from her trading partners for the RMB to appreciate. To grow her middle class, however, China is poised to continue to permit gradual appreciation of her currency, commensurate with the dictates of this new development trajectory. Under this new model, China's financial system is expected to open further, as will her interest rate regime. Outward and inward investments through regulated funds will be further liberalized with the evolvement of the Qualified Domestic Institutional Investor (QDII) and Qualified Foreign Institutional Investor schemes (16). Monetary policy will continue to remain highly flexible to respond to problems such as inflation, asset bubbles and any sudden external economic shocks. The RMB is set to become increasingly accepted for international settlements, boosting confidence in the currency as an international means of financial exchange.

Nevertheless, as the world's economic and indeed, geopolitical order is being transformed with a rising China, the waters ahead remain uncharted where black swans may appear and nothing is preordained. While China is likely to redouble her efforts to boost the RMB's status as an international currency, she will remain extremely cautious in not giving up too soon the financial protection of a non-convertible capital account.

****

(1) *The Future of China's Exchange Rate Policy*, Petersen Institute for International Economics, Washington D.C, July 2009, *Congressional Currency Bills* pp.77-81.

(2) *China's exchange rate policy: a yuan-sided argument*, The Economist, 19 November, 2009, at http://www.economist.com/node/14921327 (accessed on 26 February, 2011).

(3) *The Future of China's Exchange Rate Policy*, Morris Goldstein and Nicholas Lardy, Petersen Institute for International Economics, Washington D.C, July 2009, pp. 87-96.

(4) *What Monetary Policy Does China Need?*, Marvin Goodfriend, Professor at the Tepper School of Business at Carnegie-Mellon University and Eswar Prasad, and Chief of the Financial Studies Division in the IMF's Research Department, posted on Global Vision, a global markets and poverty alleviation website run by Mercy Corps, 19 July, 2007, at http://www.globalenvision.org/library/3/1692 (accessed on 27 February, 2011).

(5) *IMF 2010 Article IV Consultation Staff Report on China*, IMF Country Report No. 10/238, 9 July 2010.

(6) *Redbacks for Greenbacks: The Internationalization of the renminbi*, Francois Godement et al., China Analysis, European Council on Foreign Relations and Asia Centre, November 2010.

(7) *Our currency, Your Problem*, Niall Ferguson, Hoover Institution, Standford University, 30 April, 2005 at http://www.hoover.org/publications/hoover-digest/article/6386 (accessed on 27 April, 2011)

(8) *China's Dollar Trap*, Paul Krugman, New York Times, 2 April, 2009 at http://www.nytimes.com/2009/04/03/opinion/03krugman.html?_r=1&em (accessed on 27 February, 2011)

(9) *China's Leader Says He Is 'Worried' Over U.S. Treasuries*, New York Times, 13 March 2009, at http://www.nytimes.com/2009/03/14/business/worldbusiness/14china.html (accessed on 27 February, 2011).

(10) *Zhou Xiaochuan's Statement on Reforming the International Monetary System*, Council on Foreign Relations, at *http://www.cfr.org/china/zhou-xiaochuans-statement-reforming-international-monetary-system/p18916 (accessed on 27 February, 2011).*

(11) See the controversial book, *When China Rules the World*, by Martin Jacques, Allen Lane, 2009, which may appear over-bloated to some readers.

(12) For example: J f. Garner, *The Rise of the Chinese Consumer:Theory and Evidence*, John Wiley & Sons, 2005 and *The Value of China's Emerging Middle Class* in the McKinsey Quarterly, 2006

(13) *Preparing for China's Urban Billion*, McKinsey Global Institute, March, 2008.

(14) Stephen Roach, *Next Asia: Opportunities and Challenges for a New Globalization*, Wiley, 2010

(15) *The Future of China's Exchange Rate Policy*, Morris Goldstein and Nicholas Lardy, Petersen Institute for International Economics, Washington D.C, July 2009, pp. 36-37.

(16) See a good description of these schemes on Wikipedia : Qualified Domestic Institutional Investor at http://en.wikipedia.org/wiki/Qualified_Domestic_Institutional_Investor and

Qualified Foreign Institutional Investor at
http://en.wikipedia.org/wiki/Qualified_Foreign_Institutional_Investor

****