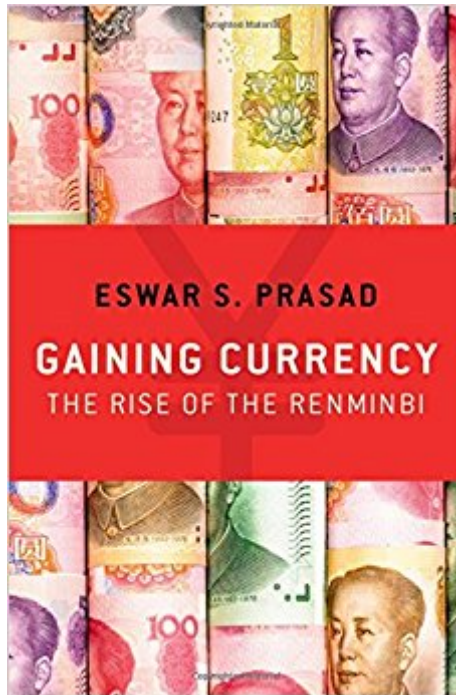




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# Gaining Currency: The Rise Of The Renminbi



## Synopsis

In *Gaining Currency*, leading China scholar Eswar S. Prasad describes how the renminbi (RMB) is taking the world by storm and explains its role in reshaping global finance. This book sets the recent rise of the RMB, China's currency since 1949, against a sweeping historical backdrop. China issued the world's first paper currency in the 7th century. In the 13th century, Kublai Khan issued the first-ever currency to circulate widely despite not being backed by commodities or precious metals. China also experienced some of the earliest episodes of hyperinflation currency wars. *Gaining Currency* reveals the interconnections linking China's growing economic might, its expanding international influence, and the rise of its currency. If China plays its cards right by adopting reforms that put its economy and financial markets on the right track, the RMB could rival even the euro and the Japanese yen. Prasad shows, however, that while China has successfully adopted a unique playbook for promoting the RMB, many pitfalls lie ahead for its economy and currency that could limit the RMB's ascendance. The Chinese leadership is pursuing financial liberalization and limited market-oriented reforms, but it has unequivocally repudiated political, legal, and institutional reforms. Therefore, Prasad argues, while the RMB is likely to become a significant reserve currency, it will not attain "safe haven" status as a currency to which investors turn during crises. In short, the hype predicting the RMB's inevitable rise to global dominance is overblown. *Gaining Currency* makes a compelling case that, for all its promise, the RMB does not pose a serious challenge to the U.S. dollar's dominance in international finance.

## Book Information

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"...a clear and even fascinating account of the structures and quirks of China's financial markets. Prasad combines a practitioner's technical grasp of the subject with a nonacademic clarity of style that will enlighten novices as well as professionals experienced in Chinese finance." -- Financial Analysts Journal "[Prasad] take[s] pains to place the attempt to internationalize the renminbi in its historical context." -- Foreign Affairs "One of the world's leading experts on international finance, Prasad clearly explains what China has to do to make the renminbi a global currency." -- Ben S. Bernanke, Distinguished Fellow in Residence, Brookings Institution, and Former Chairman of the Board of Governors of the Federal Reserve System "Skillfully drawing on history, international economics and a unique in-depth knowledge of the country, Eswar Prasad provides a compelling and comprehensive assessment of China's role in global currency markets-past, present and future. Containing an analytical road map with key markers, this fascinating book will be of particular importance to all those interested in the prospects for China's growing global prominence and its systemic influence, not only economic and financial but also geo-politically." -- Mohamed El-Erian, Chief Economic Adviser at Allianz, former CEO of PIMCO, and author of The Only Game in Town: Central Banks, Instability, and Avoiding the Next Collapse "A clear and comprehensive entrÃ©e to contemporary debate over the direction of China's financial development, with an eye to how the yuan will impinge international financial markets in the future. Extraordinarily helpful for students interested in the nuances of Chinese financial policy, for investors interested in risks inherent in the Chinese development model, and for policymakers who want to better understand how to deal with the rise of China." -- Kenneth Rogoff, Thomas D Cabot Professor of Public Policy, Harvard University "In this nuanced, thorough, and balanced book, Prasad -- one of the preeminent authorities on China's economy -- chronicles how and why the RMB is emerging as a significant international reserve currency. At the same time, he explains that, absent sweeping changes to China's political, legal, regulatory, and banking systems, the RMB is unlikely to tap its full potential and become a 'safe haven' currency. The book will be extremely useful to anyone looking to make sense of the intricacies of China's economic system -- where it stands today, and where it's going tomorrow." -- Robert E. Rubin, Co-Chairman, Council on Foreign Relations, and Former U.S. Treasury Secretary "The renminbi and its fluctuations will be a key determinant of what happens globally over the next decade. In this important book, Eswar Prasad looks to the past to understand the present and to forecast the future. It is the definitive book on the renminbi." -- Lawrence H. Summers, President Emeritus and Charles W. Eliot University Professor of Harvard University

Eswar S. Prasad, Tolani Senior Professor of Trade Policy in the Dyson School at Cornell University, holds the New Century Chair in International Economics at the Brookings Institution and is a research associate at the National Bureau of Economic Research. He is a former head of the IMF's China Division and author of *The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance*.

*Gaining Currency : The Rise of the Renminbi* is an account on the growing use and challenges of broad adoption of the unit of account in China. Eswar Prasad was former head of the IMF in China so has a long familiarity with the country's political economy and the evolution of the use of the Yuan. To a certain extent this book seems like an extension of his previous work *The Dollar Trap* but focused of course on the Yuan/Renminbi. If one wants to better understand the Chinese economy, the growth of use of the Yuan and the role of it in international trade as well as its use in international capital accounts this book is the right place to go. The author starts out by giving the history of China's currency briefly and one gets a quick sense of the history of the currency and anecdotes on China being the first country to use paper currency as well as the rivalry of currencies during the civil war period. The author quickly moves into the heart of the book which is the economics and politics of currency regimes. Aspects of this book echo what has been in his previous works so those familiar with currency concepts can skip certain chapters without sacrificing much. The author details the opening up of China's capital account and the long process of WTO inclusion. He also spends time on the various mechanisms China created to invest onshore including QFII mechanisms and direct investment procedures as well as the use of the CNH to test the market. The author discusses the growing incremental use of the CNY and how first it was used in trade invoicing but is slowly migrating into central bank balance sheets. He also notes however that the amounts are insignificant and can be perceived as option low cost options by central banks to include in their asset mix. The author also spends time on the inclusion the CNY in the SDR basket and the steps it took to get there including the missteps of last summer as the NDF rate started becoming re-pegged to the CNH on a daily basis unexpectedly. The author also discusses some of the fragilities of the Chinese economy and its credit intensity and state directed capitalism. He discusses the difficulties in the broad adoption of the CNY as a store of value given the economy's imbalances and restrictions. The author spends some time discussing rule of law with respect to global asset currencies and notes all utilized reserve currencies have more accountable political economies than China. The author then discusses the changing nature of global institutions as China's grows and how new multi-lateral institutions are being formed with greater influence from

China. In particular the TPP is discussed (though this is now probably irrelevant) as well as the Asian infrastructure investment bank. The growing importance of the CNY/RMB is a topic that warrants a modern analysis given the continual evolution of its use. There is to a certain extent an accelerating use of it as China is now the second largest economy and the largest trading partner of many. Gaining Currency achieves its goal of giving the lay of the land and where the roadblocks lie for greater adoption as well as the progress made so far. It is a bit dry at times and the ideas are in other works of the author so there is some repetition but its a useful read for those looking to learn about China, its capital account evolution and the growing use of its currency.

This is another excellent book by Prasad explaining currencies insights from one of today's leading scholars. Absolute must read!

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