

# Chinese Currency Goes Global: Candidate for new Reserve Currency?

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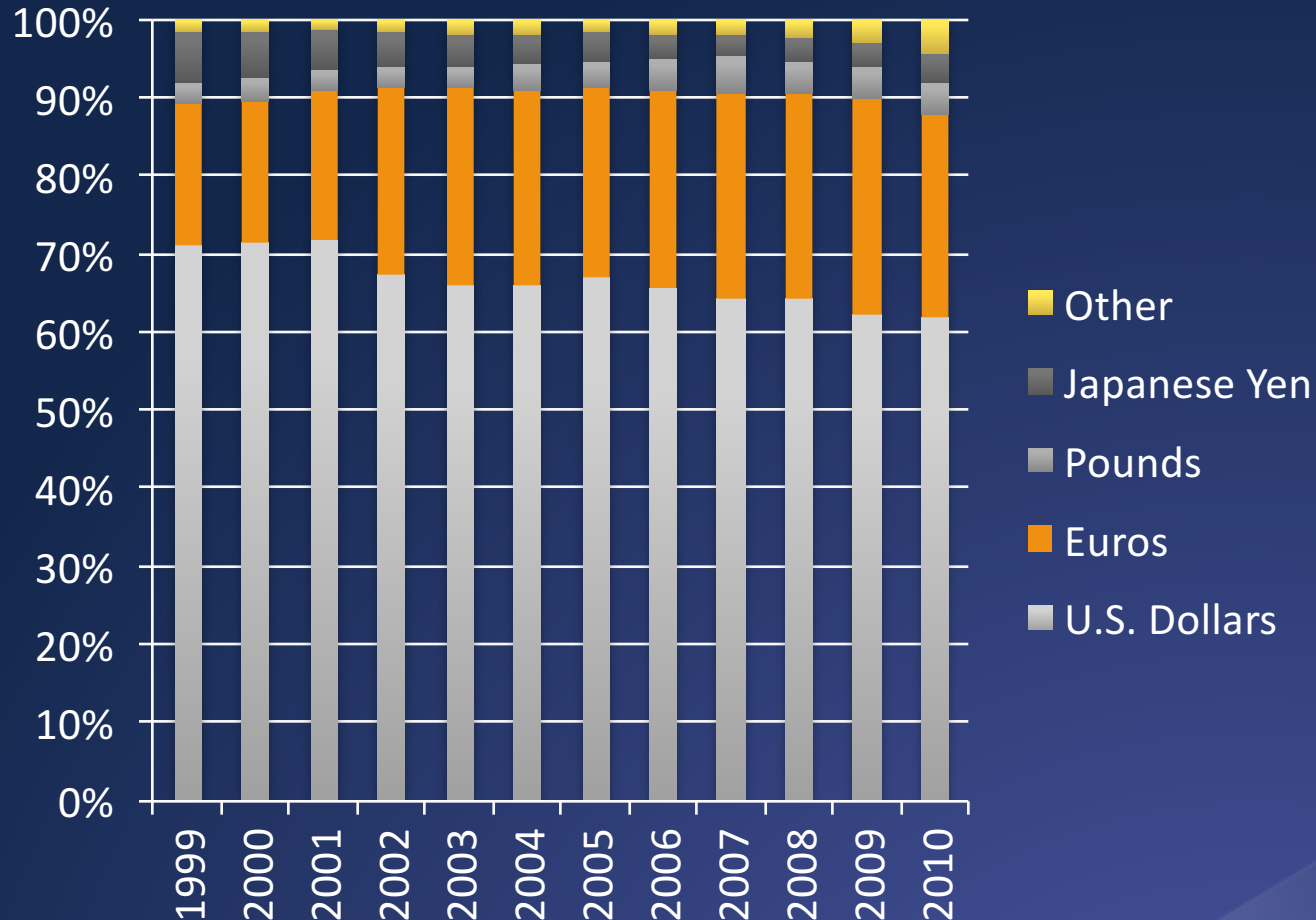
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University of San Francisco

# Reserve Currencies

- What are reserves?
  - Foreign currency and bonds held by monetary authorities
- What is a reserve currency?
  - A currency w/a large share of global foreign exchange reserves
- Benefits from reserve currency status:
  - Lower transactions costs
  - Lower borrowing costs
  - Seigniorage
  - Less market discipline
  - McKinsey GI estimate: \$40B-\$70B/year for U.S. in 2009
  - Geopolitical and strategic strength

# Current Official Reserve Holdings



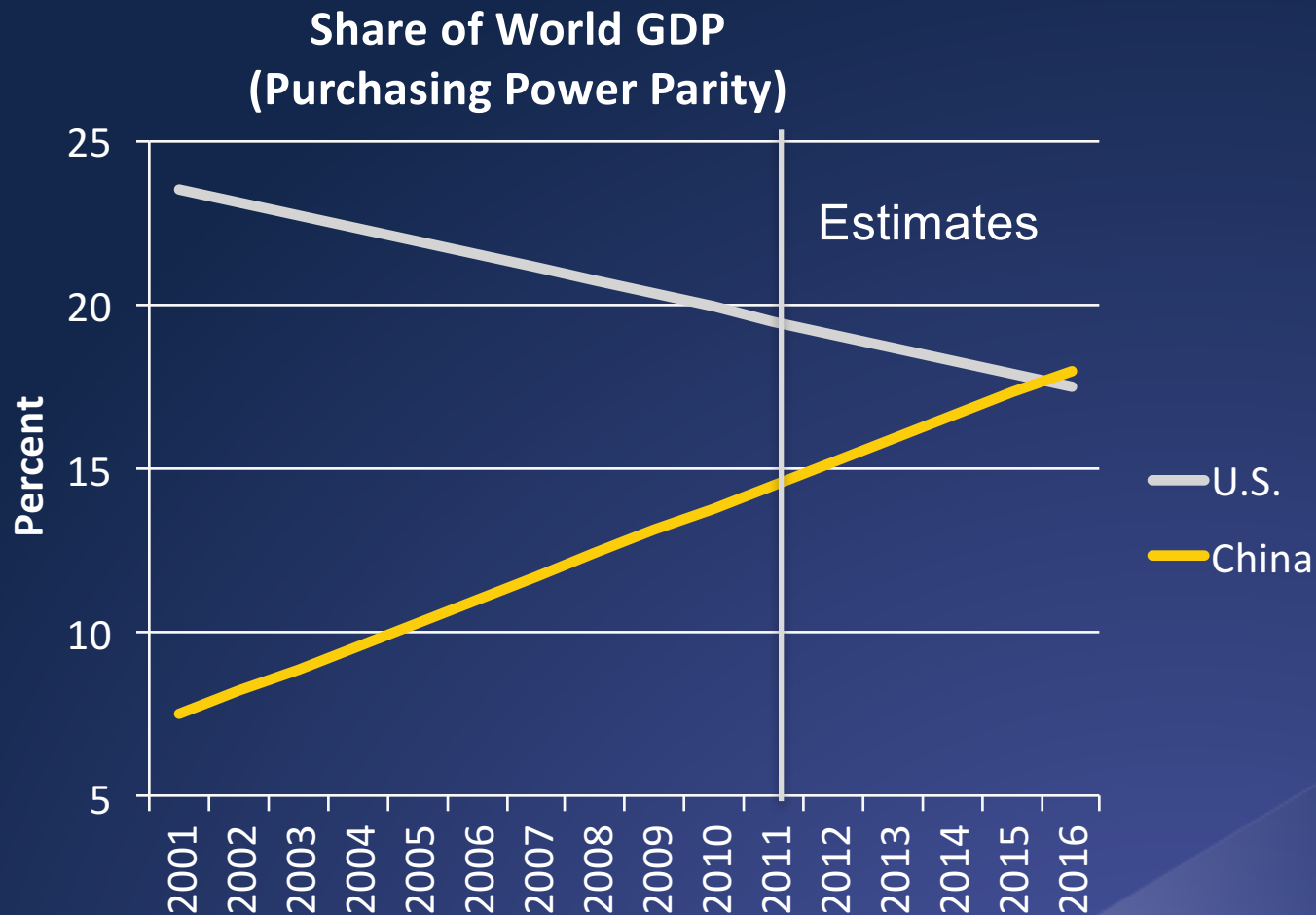
# A Brief History of Reserve Currencies

- US Dollar - current
- Pound Sterling - prior to WWII
- Dutch Guilder - 17<sup>th</sup> century
- Venetian Ducato - Renaissance period
- Roman Denari - middle ages
- Byzantine Solidus - middle ages
- Islamic Dinar - middle ages
- Punch-marked coins (India) - 4<sup>th</sup> century
- Greek Drachma - 5<sup>th</sup> century BC
- **Chinese Liang** - **5<sup>th</sup> century BC**

# Reserve Currency Requirements

- **STRENGTH, STABILITY, SIZE, OPENNESS of Economy**
- **SIZE OF ECONOMY**
  - Must be an economic power
- **TRADE/INVESTMENT FLOWS**
  - Currency must be in significant demand for international transactions
- **FINANCIAL SYSTEM**
  - Must be free, open, and reliable

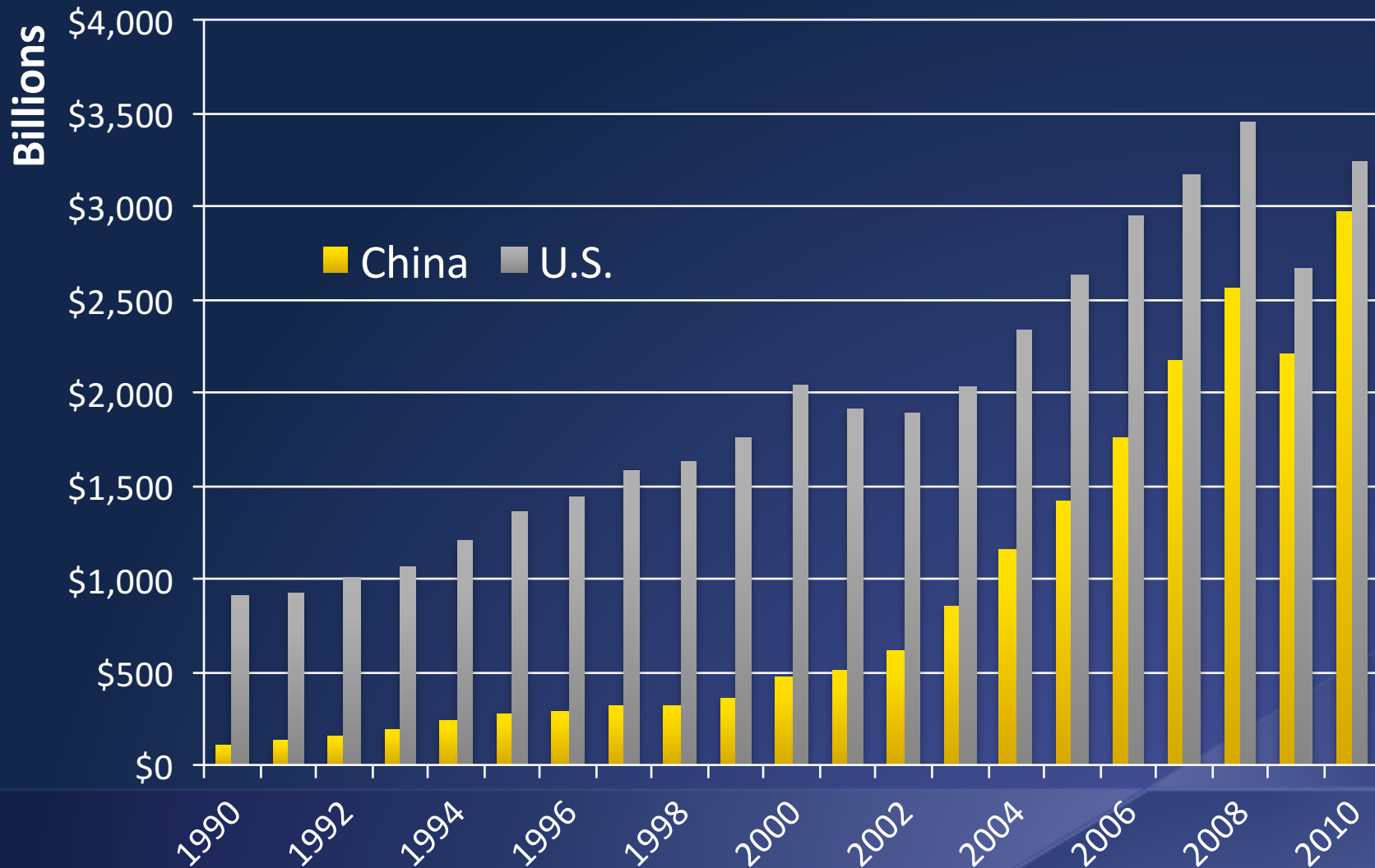
# China's Economy



Source: International Monetary Fund

# China's Trade

Total Trade (X+M)



Source: World Trade Organization

# China's Financial System

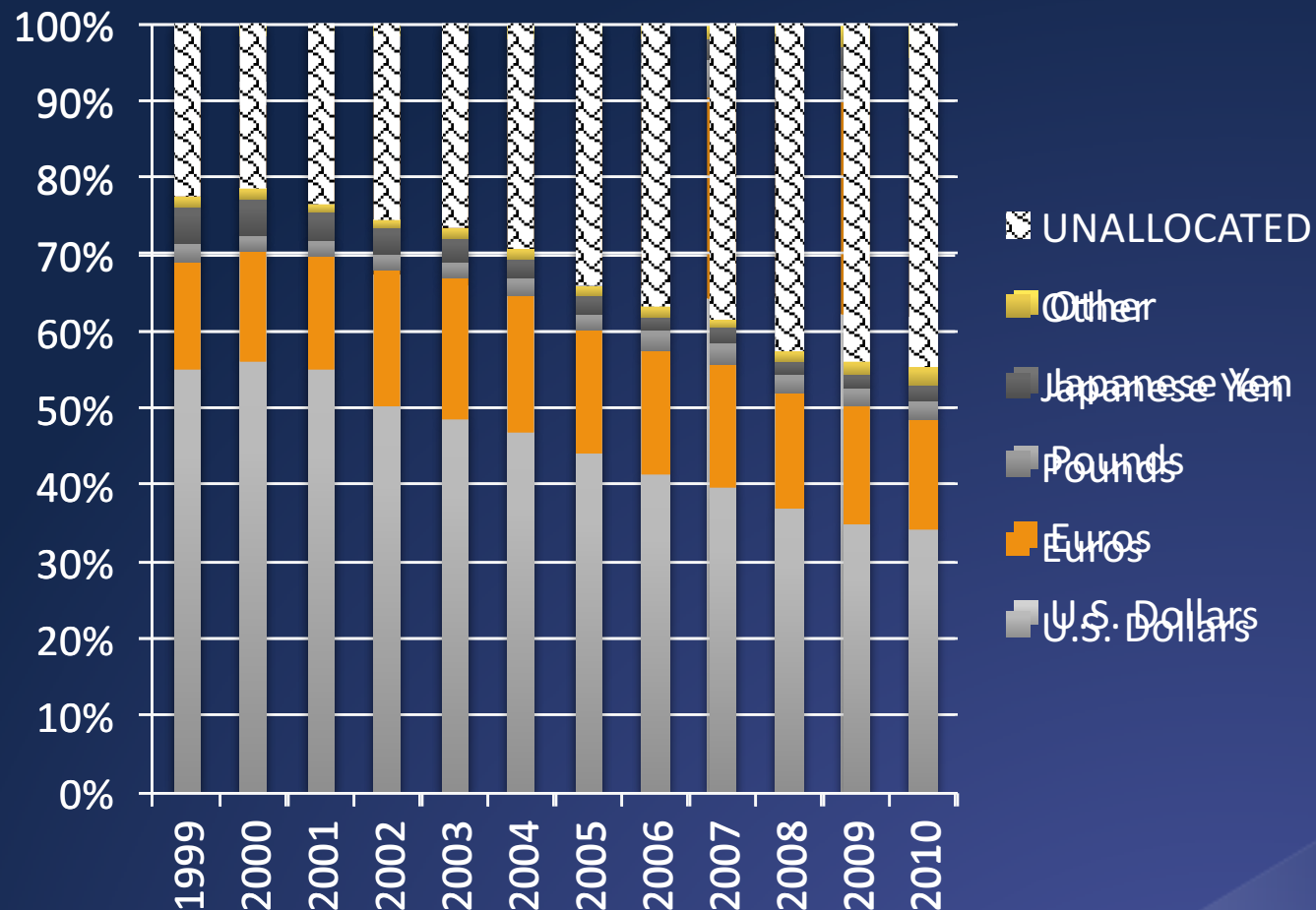
- Too closed to foreign participation
  - Domestic bonds
  - Domestic banking
  - Foreign investment
- Currency is not easily convertible



# Reserve Currency Potential?

- Seems almost inevitable
  - More a matter of when than if....
- Currency and financial system
  - Must be seen more as price systems than policy instruments
- Ultimately, perhaps more dependent on GDP/Capita than GDP
  - Currently 1/10 of US, in PPP terms

# Current Reserve Holdings



# Bay Area Council Economic Institute

- *Regional Analysis*
- *Business & Market Analysis*
- *Ports & Infrastructure Analysis*
- *Economic Impact Analysis*
- *Public Policy Analysis*

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