



上海论坛 2012 学术简报

Academic Bulletin of Shanghai Forum 2012

RMB Internationalization and Shanghai

International Financial Center Construction

May 27, 2012

The “New Mission for International Monetary Governance: A Win-win Situation” Sub-forum meeting of 2012 Shanghai Forum with the topic “RMB Internationalization and Shanghai International Financial Center Construction” was held in 601 conference room of West Building, Guanghai Towers in the morning of May, 27th. A panel of 8 scholars exchanged their views concerning Chinese International Financial Center Construction, RMB Internationalization and Chinese Macroeconomic Context Analysis.

Prof. Song Min presented his comparisons of both challenges and opportunities facing Shanghai and Hong Kong in International Financial Center Construction. The presentation also included Shanghai and Hong Kong’s relationship not only as competitors, but also as partners. He mentioned the construction process taking place in Shanghai has been greatly benefited by the huge potential of Chinese economic growth, Shanghai’s unparalleled geographic position and the achieved results in financial system reform. Compared with Shanghai, Hong Kong has an advantage from the high degree of financial opening, free capital flow and the vitality of financial institutions. However, Hong Kong has suffered from its immature bond market, corporations’ irrational favor of equity raisings, and phenomenon that the majority of capital comes from mainland China. The two cities both have pros and cons, therefore we have to make use of each other’s merits and promote collaboration

and sharing in financial resources, information and talents to build a Chinese Financial Centre and an Asian Financial Center together.

The next three scholars focused their speech on International Monetary System Construction and RMB Internationalization. Prof. Chen Xuebin from Fudan University gave his speech on the topic of “The International Experience of Currency Internationalization and Revelation on the Internationalization of RMB”. He stated that the basic functions of a currency, the international demands for a currency, the stable value of a currency, a well-developed and open financial market and the historic succeeding of an international currency are five key prerequisites for a currency to become foreign reserve currency. Then Prof. Chen introduced the pattern of currency internationalization, the path for it and the pros and cons of it. He emphasized that currency internationalization is a time and effort consuming process, in which respect we can't be too anxious and too eager to succeed. It is necessary to build a growing financial market, a regulation system, to improve the panels for capital liquidity and exchange rate forming mechanism, and to make the mode of economic growth adjust to the RMB Internationalization.

Prof. Huang Daye from Taiwan University illustrated Taiwan's failure in constructing International Financial center in the hope of inspiring us in the discussions about Shanghai nowadays. There are seven points in general needed to pay attention to: first, financial laws are being made and legislated or not. It is known by us that Taiwan didn't get its speed in the legislation courses in financial areas. Since Shanghai has efficiency in issuing laws and other legal processes, we should not ignore the quality and effectiveness of the laws. Second, a reasonable tax system in Shanghai is important, since compared to Hong Kong and Singapore, our tax rates are relatively higher. Third, the liberalization of interest rate and the transparency of financial information communicating are totally required. Fourth, we need to build a reliable credit rating agency to develop the bond market. Fifth is the way how we select a financial talent. The sixth concerns capital liquidity and the releasing of foreign capital control. Last but not least, people need to develop a responsible attitude in



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financial regulation and financial management. Mr. Huang pointed out the relations between a financial center and a political center, stressing that Shanghai still have a long way to go in course of financial internationalization.

Prof. Qiao Yide discussed RMB Internationalization from an improving the management of international financial order perspective. He believes that the RMB internationalization has profound meanings in the improvement, and that an internal and external policy balance should be paid attention to in the process. The total opening capital account is feasible when and only when the interest rate has been liberalized and exchange rate forming mechanism has been improved.

In the second section of the meeting, Prof. Heungsik Choe discussed with us about how the major economies in Northeast Asia could cooperate together in financial areas. From the perspective of building an Asian financial center, every economic or financial crisis in history has reminded us the importance of building a regional security network, thus to raise our level of pre-warning mechanism. Nowadays tons of transactions are settled by US dollar, the Asian countries are lacking in a foresighted vision of further and more extensive collaboration. We ought to not only build a free-exchange platform, raising our impact in Asia and reducing our reliance on external economies, but also make joint efforts in promoting financial products and financial facilities, thus to achieve win-win success in our cooperation.

Prof. Hua Min from Fudan University made a persuasive speech by a deep analysis of recent Chinese Macroeconomic Situations. He made an argument that just when the world economy started to step out of the bottom of a crisis, the emerging market countries are faced with a severe challenge in economic development. The dangerous signs of that are the declining ratio of exports to GDP, the inadequacy of private investment, the financial constraints of government expenditure and the decreasing abstract amount of consumption. Other issues at hand are capitals continuously

flowing into the real estate market, with the increase of the price of fixed assets, but consumer price index keeps soaring, which stimulates people's nerves. Government should reconsider whether they have taken the right action to retreat private sectors and advance public sectors, transfer the economic concentration to the West, replace market mechanism with planning, remove export surplus to reach balance of payment, etc. And what we read most about the income gap has deep root in the inequality of people's opportunities to be employed. Prof. Hua demonstrated the topic further by showing graphs and tables. The current Chinese real estate price level, the GDP trend and the CPI trend are not signaling an optimistic expectation in the near future. Instead, if government doesn't make proper changes in economic policies, we will have big trouble.

Jinill Kim from Korea used his working experience in Federal Reserve in the US to illustrate why we need to unite together as an Emerging Asia to confront both challenges and opportunities. The crucial question there is how to accomplish the unification in financial fields, and how to deal with the problems of appreciation and depreciation of domestic currency. This is a very controversial question not only in China, but also in Korea and Japan.

The last speaker is Prof. Wu Chongfeng shared with us his opinions in Allocation of Foreign Exchange Reserve Asset Based on Income and Output. He stressed that two key questions in the alternative allocation of foreign exchange reserve, one is whether we can take advantage of our huge foreign reserve stock to contribute to the participation in global division network in order to serve our economic development. The other is how we can promote our competitiveness in the global economy.