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Renminbi Internationalisation:
How the World Can Cope with the Change

By YUKSELGORMEZ and BEN SHENGLIN*

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Abstract

After the official announcement from the International Monetary Fund ("IMF") to include Chinese currency in the calculation of the special drawing rights ("SDR") with a weight of 10.92 percentage, there seems no way out other than trying our best to understand how Chinese financial markets will respond to this paradigm shift and how international stakeholders will manage the change in their best interests. The global financial governance will never be the same after October 1st, 2016， when the SDR decision takes effect.

Speed of light may be an exaggeration to describe the evolution of renminbi internationalization but it is generally agreed that Chinese currency may have been moving too fast whichmay further complicate the complexity of managing the change: adaptation to massive changes in such a short time can be challenging not only in China but also internationally. Stakeholders might try their best to analyse pros and cons, though it might not be so easy all times given the risks of unexpected consequences. However there is no other way but to closely follow up latest developments and try as many simulations as possible to envisage probable scenarios about the future directions, analyse its implications and take appropriate actions.

JEL Classification: E5, F6, G2

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1. Introduction

Many countries from Argentina to Finland, from Mexico to Turkey, have been changing a lot when compared in two different periods, be it decades or centuries, thoughthe magnitude of change might be quite different from one to another. Comparatively China is considered the one that has changed most. In every decade since 1949,when PRC was founded, China has been experiencing major changes in terms of political and/or economic governance structures. One may recall the periods of *Great Leap Forward*and*Cultural Revolution* as such examples, though the consequences were considered undesirable, to say the least.

The change continued after 1971, when PRC became a full member of The United Nations ("UN"), but its pace accelerated from 1978, when DENG Xiaoping led a paradigm shift with the opening up policies. One may argue that internationalisation of the renminbi (RMB)started from that time. One advantage for China at that time was that compared with all other then socialist countries around the world, barter had never fundamentally been institutionalised in China, with food and other goods of shortage allocated and sold on a quota/coupon-based system. Ultimate barter-based economy would have diminished the concept of value. Keeping the concept of value in the minds of the households and corporates helped a lot to bring the concept of money back into "market action" as soon as China decided to adopt an open door policy in 1978.

If the understanding of the value had been eliminated structurally from the societal life, opening-up wouldn't have been such a success due to the lack of entrepreneurial skills. Because of the difficulties in the measure of relative prices without the concept of value represented by national money or RMB, corporatisation would have been facing extreme hurdles as well therefore limiting their capacity to change, which is a prerequisite to successfully implement the opening up strategies.

Luckily, China had enough entrepreneurial spirit to adjust to the new realities of doing business from 1978. Foreign investors found both human resource capacities to realise their investment motivations and supportive governments to help them ease their burden for sustainable investor friendly business climate. As a result, technological gap between China and the Worldnarrowed quickly with this recipe of combining China's business climate conditions and foreign investments. The transformation began on a win-win basis from the very beginning, with both sides gaining by fulfilling each other's gaps.

Let`s go over some of the turning points of this process that has triggered internationalisation of RMB from 1978. This note will first look at the main stages of this transformation after addressing the importance of money as the ultimate societal agreement for any given society including China. Then, we will investigate and evaluate latest inclusion of RMB into the special drawing rights (SDR) calculations. The note will conclude with some recommendations.

2. Value, Money and Internationalisation

If there is no exchange among economic agents, there will be no role for money for any given society. In the early stages of life with its primitive form with no social interaction where standard forms of food, shelter and clothing are consumed, the contribution of money was quite limited if not nil. Social interaction supported exchanges first and barter had been upgraded with the invention of money progressively but after many millenniums. It is well documented that money, in the forms of coins, was invented by Lydian's in Minor Asia,which is now Turkey today. Money, in the forms of paper, was invented by Chinese a couple of centuries later.

National and international trade increasedprogressively as well and became more and more sophisticated with the help of so-called Silk Roads. Marine transportation and railway technologies supported that trend even further. However one thing did not change much: the need for a standard, reliable `value` measurement, a common numeraire and a common understanding of value. From this perspective, *money may be called as the most critical societal agreement* within a nation or within a region. This can easily be put into the right context with a simple analogy to be the answer of the question of why we need money in the first place:

"If there are n commodities, there are at least (n (n-1))/2 separate values. The number of bilateral exchange ratios (prices) rises quickly. With n = 100 commodities, there are at least 4950 prices to know. At n = 500, the number is 124,750, and with 1000 commodities there are at least 499,500 prices. Without a unit of account, trade would be very limited by costs of information. Use of a unit of account to express value reduces the number of prices from (n*(n-1)/ (2) to n." (Meltzer, 1999).

Money survives under extreme conditions because of this very simple arithmetic. Whenever there are social interaction and exchanges among people, then there will be demand for a common numeraire for the simplification of exchanges. It was cigarettes during the German hyperinflation periods or it can be sea shells in the oceanic way of life. In one form or another, money emerges to simplify trade and goods and service exchanges among economic units.

Money in fiat form had actually been tested before in the early centuries but somehow all those experiments had failed in one way or another. Commodity standard became the common practice for many centuries. But, after the collapse of Bretton-Woods system, fiat money became the new norm in one way or another. All the major currencies that are being exchanged and traded today are the same type of `I Owe You` promissory notes, without the backing of gold or another commodity. When a paper or coin currency is delivered to the exchequer or to the central bank, all a holder will get is a `brand new` paper or coin form, a promissory note representative of value.

This is also true for all the current SDR member currencies, namely American dollar (USD), euro (EUR), British pound sterling (GBP) and Japanese yen (JPY). In the foreseeable future, fiat money may survive without much challenge. In fiat form, money creation can go to infinity opposite to commodity based money norms. As a result, monetary policy is more of an art than science under fiat money form.

China's Stable Renminbi

The history of opening up in China may be called as *re-monetization of the economy*. To make the point clearer, partial coupon-based production and distributions models may be re-called. Accounting of communal production, distribution and consumption processes had never been left out in the Chinese governance structure, therefore rapid adaptation to the opening up was supported by the institutional capacity and human resource capacity of the Chinese society in terms of keeping records of all economic activities, be it distribution or production or consumption. Value survived to support accounting procedures, and as a measurement of value, money had never been taken out of sight institutionally. Once full-monetisation (that is "market-based reforms") was decided after the opening up, the necessary infrastructure was already there to support the reforms and transformation. One may question why we focused so much on this argument, but the virtual non-existence of high and volatile inflation or hyperinflation in the process of China's economic re-structuring from 1978 provided the strongest support for this argument. Money has categorically or institutionally used differently in China opposite to many

other emerging countries in Latin America, Africa or Eastern Europe. Printing money in the form of short-term advances to the Treasury to pay public servants salaries has never been a common practice in China. Neither money printing for project financing nor non-cash borrowing practices to help support unsustainable public investment were being utilised extensively as a resilient monetary or economic policy tool in China from the early stages of the reform process.

Thisprobably should be taken as just another reason why transformation of Chinese economy has been an unprecedented success whereas many other trials around the world (by other emerging countries and regions)failed to come anywhere close to that success. Inflating money to create sustainable money illusion was also never a common practice as well. This has helped keep the value of renminbi as one of the most stable among emerging countries. It is noteworthy that inflation in China wasNOT shaped mostly by exchange rate pass-through and its related spill-over effects whereas this was amongthe hottest topics during the Eastern Europe, when they transitioned from planned to market economies, be it Romania or Hungary. From that perspective, it may ve argued that awareness of value (because of the institutional capacity of the Chinese economy even under extreme communal based dynamics) was one of the main reasons for the extremely successful re-monetisation of the economy. With this capacity, renminbi first became a very stable currency to serve all the main functions of money without creating many issues that have always been very visible in many emerging economies all around the world. Institutional capacity of "value awareness" in China helped design, develop and implement a very successful monetary regime to best serve economic growth. Renminbi`s positioning of its primary role as the main oil for the sustainable growth engine will attract heightened research interest in the future, as a broad effort to understand why China has been so successful when many failed.

Emergence (and making) of renminbi as a safe and sound currencyhas helped, more than many perceived, in terms of the role of money during the transformation of the Chinese economy. Once money is well designed at national level and value is represented with money in fiat form, production, distribution and consumption of goods and services become more efficient compared to barter models due to the simple arithmetic that was explained earlier. China benefited from the survival of the concept of value during the difficult decades and it was much easier to re-monetise the economy after the opening up decision. Non-inflationary renminbi with its stable value to hard currencies supported successful re-structuring without damaging corporate China's balance sheets and without creating distortions on fiscal policy to lead typical issues such as *original sin* that has been quite destructive for many other emerging countries. Financial system was transformed successfully as well with the help of stable, safe and sound RMB: NO systemic collapse of banking system during the transition period.

3. Chinese Transformation: the RMB Perspective

Economic transition in China is sometimes called a great success. The term "success" may be considered insufficient to describe what really happened in China. Even the term "beyond success"such as `miracle` may not be enough: miracles may happen in more than one place and more than one time. It is the argument of this paper that the massive change in the Chinese economy can best be described as a `magic`, becausea magic is once and for all. It can not be done second time, other than re-doing it endlessly in its fixed processes. Also, a real magic can only be performed by one person. As soon as others can learn it, it loses its "magic-ness" and becomes a

standard show. It requires a certain level of human resource capacity with advanced analytical and technological capabilities. It is not a chance but a direct result of hard work, strong planning with optimal use of resources. Chinese re-structuring is a case where `magic` describes best. Whatever happened since 1978 in China will never happen anywhere else around the world including China. It was one-off. It will be the argument of this paper that renminbi played an unprecedented role in this magic transformation.

To make the point clearer, we may compare how countries in transition in Eastern Europe transformed their economies from mono-banks to market based financial service provision. Without getting into details, it may be argued that European transition from command to market economy was too fast and without proper planning. Ownership transfers were mostly realised by distributing coupons of the state-owned enterprises into households without providing much corporatisation capacity. Departing from the old models of Soviet distribution channels and creating a national currency was not well designed and planned as well. Initial high and volatile inflation was a main common aspect of the malaise of transition. Most of those national currencies failed to create credibility as they lost once and burdened by all the side effects of *original sin* phenomenon. Some of them have been and are still trying to rely on currency board arrangements to support macroeconomic stability. As the change in this part of the world was (too) fast and furious, it was almost impossible to manage the transformation optimally and the end outcome is that after so many years, many countries in the region still lack a potential growth rate anywhere close to five percent for one reason or another.

The Chinese story has been quite different from that. First of all, right from the beginning, the transformation was experimental with principles. One of the principles was to confirm the truth with actual outcomes as it is mostly phrased as *finding the truth from the facts*. This principle prevented major policy mistakes as decisions were taken partially first and after being tested with positive findings, then national launch was taken as timely. Second principle was the *sequential characteristics of the reform process*. This one may best be rephrased as "*feeling the stones when crossing the river*". It also means progressive decision making with a step-by-step option. Any decision becomes reversible in this strategy as soon as it becomes clear from the mission that it is not reaching the intended target. Instead of "wholesale decision-making" that covers all everywhere without no going back, *"retail" decisions were being taken to wait for the national roll-outs after confirming the expected results from the partial outcomes.* One of the best examples of this strategy is to create special economic zones to open up the economy for global trade and investment such as Shenzhen area. A small fishing village, Shenzhen was assigned the task for attracting foreign direct investment to create jobs for millions and to bring technical capacity and capital that was much needed to trigger growth in China. The model became so successful that additional special zones were declared one by one. During that experiment, China gained a very unique capacity to administer rapid growth and to manage changes, which,with a risk of unexpected consequences, have been almost fully controlled.

While the discussion topic here is more on RMB instead of industrialisation, it is worth pointing out that these *special economic zones were also responsible for rapid monetisation of the economy*. Without a well-functioning financial or banking system, sustainable growth is almost impossible. China could have chosen to open up banking industry to foreign investment and allow foreign banks to capture those industries and support rapid industrialisation similar to the preference of countries in transition in

Europe. The side effect of that strategy was being observed during the recent global financial crises when many foreign banks had to limit their funding in those countries because of the banks' (global) capital adequacy problems. Instead, China decided to adapt financial service provision rules to the requirements of global trade and to the requirements of being an open economy. This was the deepening stage of socialism with Chinese characteristics. As corporatisation gained further speed and as private ownership was being allowed more and more progressively, mono-banking governance structure was not sustainable. Lack of oil as the growth engine was becoming more and more obvious. Consequently, fractional reserve banking model that has proven itself as growth friendly in many developed countries for many centuries was designed and developed in China intentionally, leaving behind the non-dynamic mono-banking model where one single bank collects all the deposits, allocates all the credits and manages all the finances of households, corporates and state.

People`s Bank of China was at the centre of change in the middle of 1980s. This period may best be recalled as the period to design the basis of a modern financial system to serve the rapid development that has already been going on contemporaneously. First of all, the roles of central banking, commercial and investment banking were separated. This was a functional separation to bring the rules of socialism with Chinese characteristics into the financial service provision. Again, it was following the main principles of*"sequential tactics"*. For example, private or foreign banks were not being licenced in advance systemically. It was an intentional choice to avoid complicated financial deepening that will lead in front of the macroeconomic capacity and to lead for a financial crisis because of the lack of financial risk awareness and lack of human resource capacity to avoid that sort of financial risks. More than that, there were serious bottlenecks on the financial service provision technologies such as online real-time gross wholesale settlement system. In those years, there were absolutely a lot for China to learn, to design, to develop and to manage in terms of financial infrastructure. At the same time, with the success of opening up, private capital formation was accelerating, creating demand for more financial products beyond typical depository or credit facilities. However, there was no intention to liberalise financial market during that decade because there was no real financial market at that stage, be it money market, foreign exchange market or bond market.

After the grand design of the financial service provision in the middle of 1980s characterized by the division of the mono-bank or the PBoC into different financial institutions in accordance with their functions, the next decade followed a similar logic, characterized as a *decade of the development of payment and markets infrastructures* for sustainable finance. From online real time wholesale gross settlement systems to credit and debit cards payment models, from custodian systems for government bonds to custodian systems for corporate bonds, many projects were jointly or separately designed and developed. During the same period, elements of further financial liberalisation were integrated into the system progressively. One example was the participation of foreign banks into the national market and the other one was the private licences being allocated to local investors.

After re-designing a modern financial system model in 1980's and investing in financial infrastructure in 1990's, China moved to design, develop and operate markets and bring more sophisticatedfinancial products. *2001, when China became a member of World Trade Organisation ("WTO"), may best considered as the start of marketisation in terms of financial deepening*. Non-bank financial institutions were

emerging in this period as well. From insurance to leasing to factoring, more specialized financial institutions joined the sector. Money and foreign exchange markets were emerging at the national level as well.One opportunity at this stage was utilised successfully: Privatisations. Proceedings were used to eliminate emerging non-performing loans and banking re-structuring was practised to create an institutional capacity to develop resolution models. Asset management companies emerged during this period.

There was one story on the central banking front as well. Unique development strategy of China by totally relying on national resources to support rapid growth with the structures of the open economy rules led to a massive accumulation of foreign exchange reserves. PBoC had to learn, as a consequence, how to manage reserves. Massive learning followed on how to work with global banks as agents, how to use reserves optimally in order to prevent losses and how to increase returns without aiming for profit maximisation. That learning allowed designing and developing wealth management and investment companies to increase the return on reserves. In order to manage the excess liquidity injected to buy hard currencies, PBoC also learned to issue short term bills.

It was the time to develop bond markets at this stage.Emergence of bond markets in China was a bit complicated because of the uniqueness of the Chinese economy: China did not originate rapid growth with external or internal borrowing. The needed capital and initial capital formation was being utilised with foreign direct investment that did not create external debt. Corporatisation in China also did not start with massive borrowing opportunities. More than that, Chinese fiscal policy has never faced massive hurdles that almost all emerging countries faced for centuries: non-ending negative cash balances of the government that leaves a need for almost permanent borrowing to create liquid bond markets with many volatility risks. PBoC took the lead in this reform and supported markets by all means, most of the time leading the way to create organised markets.

The reader may find it confusing how complicated Chinese financial transformation from 1978 up until 2008. For this period, *financial liberalisation had never systemically been a priority, withAll deposit and loans rates largely dictated by the government*. Our observations suggest that financial liberalisation and capital account opening-up have been included in the policy agenda after 2008. From the experiences of other countries such as Brazil, Mexico and Turkey, China learned that un-timely financial liberalisation and early currency convertibility without strong institutional framework and capability to manage the associated risks may be a perfect cause of a financial crises or magnify the impact of an unavoidable destructive financial stress. By being conservative for 30 years, China managed to avoid those economic and financial crises. China has applied and perfected its“sequencing strategy” in other areas as well. Energy sufficiency was just such an example, as China as an emerging economy successfully managed such a massive transition and transformation without any systemic electric shortage or any systemic shortage of any input, with carefully planned and speedy completion of massive infrastructure projects. Massive urbanisation maybe another example of such success[1]. More than that China managed

[1]Environmental issues will be out of the scope of this paper but it is worth taking a note that an economic transformation in the size of Chinese scale couldn’t have been realized without any unexpected consequences. Pollution of water, air and land seems the main side effect and needs appropriate solutions by using all the available resources of green development supported by green finance from green banks to green bonds and green insurance.

to avoid spill-overs from both the Asian financial crises just before the millennium and the global financial crises from 2008.

The current stage of financial sector transformation of China may best be described as financial liberalisation and capital account opening up. Both have been going through hand in hand. New markets such as gold market in Shanghai have emerged, newproducts in the futures and options havebeen developed, along with this comes *the inevitable financial volatilit*y. Two years ago, there was a very strong lack of liquidity where money market interest rates jumped into double digits. While it was nothing compared to triple or even five digit interest rates in other counties, it was such a big development in China as both deposit and credit rates were de-regulatedgradually and smoothly. 2015 may also be recorded as the end of one-side bets on the value of renminbi. During summer times, there was even a very sharp correction on the RMB forex rates in terms of other currencies. The role of markets in deposit and credit interest rates and in the value determination of RMB has been increasing progressively for quite a while.

As a timely appreciation and encouragement of China's effort to transform its financial sector,the IMF took the decision to include RMB in its SDR calculation from Oct 2016, the implications of which will be the focus of next section.

4. RMB as an SDR Currency and Implications

As of 1 October 2016, the RMB will have a weight of 10.92% in the SDR valuation basket, which is currently composed of USD, EUR, JPY and GBP. This will be the biggest re-structuring of the SDR calculation since 1980 when 19 currencies used for calculations were reduced to five and in 1999 to four after the French franc and Deutsche mark were merged under EUR.

How will the weight for the RMB be compensatedfor the SDR inclusion? The answer will be by cutting the other currencies' weightsas follows:

- The USD weight will be reduced to 41.73% from 41.90%
- The EUR weight will decline to 30.93% from 37.40%
- The JPY weight will be cut to 8.33% from 9.40%
- The GBP weight will be trimmed from 8.09% from 11.30%.

One interesting note is that there were adjustments to the latest calculation methodologies. Old models provided an implied weight of roughly 14 percentages for RMB.Nevertheless this is a very important stage for RMB internationalisation, for which thereis more than one reason:

First of all, SDR inclusion is a continuation and confirmation of China's successful (re)integration into the global community,with various milestones such as joining UN in 1971, opening-up in 1978, and WTO membership in 2001.

Secondly, RMB will be the only "emerging market currency" in the SDR calculation. All the other four currencies represent developed economies.

Thirdly, RMB inclusion in the SDR calculation is part of the global effort to transform the currently out-dated international financial system in order to be more reflective and representative of the changing world economic order.

Fourthly, it is a milestone on the so-called internationalisation of the RMB. Now, it is official that RMB is a global currency not only de facto but de jure as well, freely useable in not just trade, but also in official reserves, official foreign currency assets, international banking liabilities, international debt securities outstanding, issuance of international debt securities, trade finance including letters of credit, cross border payments and currency composition of the global foreign exchange market turnover.

After more than three decades of growth, becoming the factory of the world and the biggest trading nation, China now sees its national currency taking another important step to shoulder further responsibilities in global financial governance. However the future will absolutely be full of new challenges, with one inevitable phenomenon of heightened currency volatility in the following years, the history of `one-way` bet on RMB is behind us and price fluctuations will be going in either direction. Moreover, economic activity in China will be exposed to more foreign exchange rate risk.The risk here might be to either exaggerate or underestimate the magnitude of the change. We do not expect that as soon as RMBis included in the SDR valuation almost all the central banks of the world will start collecting or creating RMB positions or they will convert much of their reserves from other hard currencies into RMB. Equally we do not anticipate that households in Latin America or in Africa will start opening RMB accounts in their countries in the foreseeable future. Renminbisation may not come around in such a short period of time because of many reasons including habitual stickiness as well. Consequently, the real implication will not be a rapid or fast renminbisation of global financial system but it will be a gradual, step-by-step and sequential change to experience annual gains for RMB in all measurements from official reserves share to official foreign currency assets, from international banking liabilities to international debt securities outstanding, from issuance of international debt securities to trade finance including letters of credit and finally from cross border payments to currency composition of the global foreign exchange market turnover.

In some corners of the world there is hype that RMB is about to challenge USD dominance in many aspects. This is simply not a realistic scenario, at least not for the foreseeable future. First of all, USD became the hegemonic currency of the World almost many more decades after the American economy became the biggest. The GBP served the global financial markets and funded global trade satisfactorily. To be more precise: the American (US) economy surpassed the British in size in 1872 (In real terms - 1990 International Gheary-Kamis dollars).On the other hand, US exports did not surpass the UK exports until 1915. The development of the American financial system stayed behind, lacking the financial deepening,an example of which is thatUS did not establish a central bank until 1913 and relied on gold standard for financial and monetary stability. During the years following 1914 with the WWI, the US changed position from net debtor to net creditor. At the same time, the UK moved in the opposite direction (Chinn and Frankel, 2008).It has been generally accepted that the hegemony of the USD did not take place (over GBP)until around the middle of the 20th century, though Eichengreen& Flandreau (2009) and Chitu, Eichengreen&Mehl (2012) believed that it was much earlier: 1930s or as early as 1929.

From this perspective, it will be premature to argue that RMB will soon assume the current role of the USD in the global financial architecture. Size of the economy, sticky habits or traditions aside, USD’s global payment and custody infrastructure has been functioning quite efficiently compared even to gold standard periods in the last four or five decades where rapid expansion of global trade and global financial deepening has been going on. As long as the USD keeps doing a good job to defend safety, stability and credibility, then there might be less demand a change. There might mean less space for a competitor, be it RMB or EUR. If we may call this as “pull and push” factor dynamics, any challenge to USD should have two dimensions at least. On one hand, USD should be losing its efficiency and effectiveness in serving the nation at home and addressing the needs of global finance in terms of trade and investment and financial innovation. On the other hand, other currencies from EUR to RMB should be doing a better job not only at home but also globally to fulfil the gap

somehow. From this simplification, RMB may still be in the very early stages of such a competition because it needs to prove itself not only as a reliable, effective and efficient currency at home but also get mature enough to create a real alternative for global payments, trade finance, savings and all the rest of the demand of global finance, from pension funds to sovereign wealth funds to infrastructure finance.

Arguably, RMB has been moving in the right direction by becoming more and more international. There will surely be more space in the global financial architecture for the RMB as we have the so-called global imbalances. Current structure seems imperfect enough that the saving surpluses of the world go into the places where external savings are demanded most with structural saving deficits. There especially seems to be a massive deficit in terms of global infrastructure project finance. Consequently, RMB does not need to challenge the hegemonic position of the USD as far as USD keeps doing a good job. The alternative could be to try to fulfil the current gaps where the USD or other currencies do not manage to perform as well as they perform in other areas. RMB seems to have enough capacity and credibility to fill those gaps, be it infrastructure finance or financing mega engineering projects to upgrade aging structures.

5. Conclusions and Recommendations

China has been gradually and consistently expanding its position in the global economy since 1971 when the country took a UN position. From 1978, when the opening-up became the national priority, the magnitude of globalisation has been increasing in every decade. In particular, after joining WTO in 2001, China became an even more“mercantilist” economy that has benefited from globalisation most, continuing its uninterrupted impressivegrowth for three decades, without much disruptive volatility in terms of inflation or foreign exchange rates. With the largest foreign exchange reserve and insignificant amount of external debt, China has recently embarked on liberalising financial markets and currency convertibility. The process is not complete yet and it will not be surprising to see just another step in the right direction to bring Chinese economy in the territories of a fully open economy in goods markets as well as in services markets.

Internationalisation of RMB might be seen very slowly in the area of capital account opening up. However, global financial architecture has been evolving at a speed that has never been experienced before in terms of the shift of manufacturing epicentre of the world and in terms of massive reserve accumulation and financial deepening in China in the last three decades. When EUR was launched in 1999, much change has been expected in terms of EUR’s increasing role and USD’s diminishing role. Now RMB has become an ultimate part of global currency architecture and is likely to accelerate the changes. Such a fast change will always be difficult for any generation to adjust and adapt.

Against all odds, RMB will be taken into account on the SDR valuations effective from October 1st, 2016. This will be the moment of de jure convertibility of RMB as well. This decision is a direct consequence of the long discussion whether RMB is a freely useable currency and there is consensus now that it is. From then on, there will surely be more volatility in terms of foreign exchange rate movements in China. All stakeholders from households to companies to foreign investors to states will be having certain homework to analyse and investigate the long term implications of the valuation inclusion of RMB into the SDR. By this step, China becomes an ultimate part of the global financial transmission mechanism and it becomes almost impossible to understand global dynamics of that transmission without having a certain level of

understanding of the Chinese economy. We have observed massive changes with many financial and economic crises since the collapse of Bretton-Woods systems and we have survived by managing many changes effectively and efficiently since then. Now is the time to prove once again that we can absorb the changes that will be brought by the inclusion of RMB into the SDR calculations. This time, change has been coming very fast and we have to handle with care to minimise unexpected consequences with social welfare destruction both in China and in the world economy. Human resource capacity that has been accumulated for many decades now will be our best asset when we face all these challenges.

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