



# IMI Newsletter

International Monetary Institute  
Renmin University of China

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## Highlight

### **Symposium on Cross-Strait Financial Cooperation and Press Conference of *Studies on Cross-Strait Financial Reform***

On October 29, Symposium on Cross-Strait Financial Cooperation and Press Conference of *Studies on Cross-Strait Financial Reform* was held by IMI and Bank SinoPac (Taiwan) in Beijing. The conference mainly centered on the comparison of financial systems between mainland China and Taiwan and prospects of cross-strait collaboration.

Many famous experts and scholars from government sectors, academia and financial industry attended the symposium and delivered speeches, including: Qiu Zhengxiong, former chairman of board of Bank Sinopac (Taiwan); Xu Jiadong, former chairman of board of Taiwan Financial Research and Training Institute; Chen Muzai, former chairman of board of China Development Financial; Cai Yingyi, associate professor of applied economics of National University of Kaohsiung; Qin Chijiang, former director, Financial Institute of PBoC; Wei Benhua, former deputy administrator-in-bureau of SAFE; Zhang Zhixiang, former director-general, International Department of PBoC; Zhuang Yumin, vice president of Minjiang University; Sun Lujun, chairman of CNIC Corporation Limited; Xie Huaizhu, deputy director of International Finance Division, Research Bureau of PBoC; Si Yuanzhong, chief representative of Deutsche Börse Group Beijing Representative Office; Xing Yuhui, vice president and CRO of Beijing International Trust Co., Ltd.; Zhong Hong, senior researcher of International Finance Institute, Bank of China; Yin Jihong, associate professor, School of Finance of RUC; Tu Yonghong, deputy director of IMI; and research fellows of IMI Cheng Lie, Wang Fang, He Qing, Hu Bo, Qian Zongxin, Zhao Xueqing, Jiang Nan. The symposium was also attended by numbers of media including China Financial Publishing House, Xinhua News Agency, People's Daily and China Daily, etc. The conference was divided into two parts: press conference of *Studies on Cross-Strait Financial Reform* and symposium on cross-strait financial cooperation. The press conference was chaired by Prof. Song Ke, deputy director of IMI.

Prof. Cai Yingyi, independent director of Bank Sinopac, introduced the initiation of the research collaboration, that is drawing lessons from the development of Taiwan's financial market and getting to know the role Taiwan will play in cross-strait finance and innovation of financial products, especially those largely related with RMB.

Prof. He Qing interpreted the report focusing on the opportunity and challenge of synergetic finance. As RMB internationalization index reached 3.6 and US current account deteriorates, RMB internationalization can propel the international monetary reform and help to solve new Triffin dilemma, which will bring a significant and historical opportunity. He mentioned that the main challenge for the synergetic finance between mainland and Taiwan is the lag of mainland's financial development. He also analyzed the current reform direction of interest rate, exchange rate and capital account. He put forward that the establishment of Taiwan RMB offshore center is a critical break point of collaboration mechanism and suggested start from building an offshore RMB settlement center in order to deepen cross-strait economic cooperation.

Mr. Qiu Zhengxiong firstly reviewed the appreciation of Japanese Yen and the appearance of capital market bubble in 1990s, then analyzed the reason why Taiwan's economy grew rapidly while Japan's economy deteriorated under the same monetary policy that raised interest rate. He considered there were four financial factors that helped Taiwan turned into high-income economy from medium-income economy: appreciation of TWD, Taiwan's technological innovation, change in PER of the American, Japanese and Taiwan's stock markets and the supporting monetary policies taken by Taiwan's monetary authority.

In the discussion section, Mr. Qin Chijiang, Prof. Xu Jiadong, Mr. Wei Benhuai, Mr. Chen Muzai, Mr. Zhang Zhixiang, Mr. Sun Lujun and Ms. Xie Huaizhu expressed opinions on the significance and highlights of the project, framework and content of the report, cross-strait foreign exchange rate reform and opening of capital account, RMB's inclusion into the SDR, financing of SME, capital flows and Triffin dilemma.

In the afternoon, the Symposium of Cross-Strait Financial Cooperation was held. The symposium centered on two topics: cross-strait cooperation in the establishment of RMB offshore center and cross-strait collaboration in financing and investment under the "One Belt and One Road" Initiative. Prof. Zhuang Yumin pointed out that cross-strait financial collaboration needs to consolidate the economic and systematic foundation, highlight the complementarity of industries. Meanwhile, Mr. Qin Chijiang figured that collaboration should put emphasis on the economic structural transformation, financial resources utilization, risk prevention, people's well-being and international competition.



## ***Global People Annual Grand Ceremony and Press Conference of Top20 FinTech Leaders***

On December 18, Global People Annual Grand Ceremony and Press Conference of Top20 FinTech Leaders was held in Beijing.

The list of the Top20 FinTech Leaders is one of the lists of Global Leaders jointly initiated by Global People and IMI. It selected the most influential FinTech leaders from a pool of 200 FinTech companies, recording the development of the era by deliberating on the stories of these pioneers.

Ms. Xie Xiang, editor-in-chief of Global People, gave opening remarks on the conference and elaborated on the intention of initiating the list. He indicated that the internet finance is now in its full swing, and is rapidly disrupting the ways that people used to produce and live. China now has become the hub of FinTech innovation, harboring numerous FinTech companies and excellent entrepreneurs.

Prof. Ben Shenglin, dean of the Academy of Internet Finance of Zhejiang University, and executive director of IMI, gave his professional perspectives on this list and elaborated on the selection criteria behind the final results in four aspects, i.e., evaluation standard, industry distribution, reference index and methods. The evaluation is based on IPE appraisal system, with task performance and management performance as the basic indicators and acting performance as the modification indicator, which ensured the legitimacy of the evaluation.

After the announcement of the list, participants took part in a roundtable discussion centered on the themes of “opportunities for FinTech enterprises in China” and “technological finance or financial technology”. During the discussion, speakers shared their own insights and thought-provoking ideas on the topics.

### **Why FinTech is so popular?**

In recent years, FinTech is gaining momentum in the field of internet innovation. Fintech starts from 2015, and develops by leaps and bounds in 2016. Why FinTech is so popular in China?

Greg Gibb, CEO and co-chairman of Lufax, explained the advantages of FinTech to ordinary investors in plain language. FinTech can help investors when they were lost in an ocean of various products, because it presented transparent information of all the products.

FinTech platforms also evaluate the risks investors are willing to assume by assessing the investors' information, behaviors and data provided by a third-party. Therefore, FinTech offers customers better investment opportunities, reducing costs and providing transparency.

Ms. Wan Zhe, chief economist of China Gold Group, held that it is the breakthroughs in the market and regulations that enabled China to gain a rapid growth in FinTech. FinTech corrected the twisted situation from the supply side and solved the structural problems in the financial market, which is of great significance for the industry and the country.

Mr. Guo Yuhang, the founder and co-CEO of dianrong.com presented a set of data and pointed out that there are 44 million people in the U.S. who are not covered by traditional financial market, and in China, the number is over 700-800 million. This leaves a blank in the market, and also gave FinTech a pick-up momentum. FinTech innovations such as P2P, Bitcoin, and crowdfunding have given more and more people the access to financial services. In addition, FinTech also helped enterprises to reduce their material cost, information cost and risk cost. He believes that this is "the most important opportunity for innovation".

Ms. Qin Yi, a partner of Deloitte, introduced block chain payment software, a product co-published by Deloitte and the block chain company in May this year, which can reduce the cross-border payment costs in financially underdeveloped areas. She argued that FinTech is not just artificial intelligence, and is not just new techs such as the block chain and cloud computing, rather, it means various types of technologies combined together that allowed consumers to obtain more efficient financial services, and spare the worries from regulators. "The inclusiveness is not a service for special groups, but a concept aimed to make the whole financial consumption and services more convenient."

### **How to Solve the Problems Faced by Regulators?**

Despite its popularity and promising outlook, FinTech also faces bottlenecks in reality. Safety problems occur from time to time, sowing doubts among potential investors.

Indeed, safety issue is of paramount concern among FinTech enterprises. Mr. Guo suggests that FinTech companies must be very clear as to what to do and what not to do, otherwise things could fall apart. Controlling risks requires strict regulation. For example, the reason for the U.S. to achieve FinTech innovations and avert huge-scale risks at the same time lies in its sound legal basis and efficient law enforcement. In China, punishment for breaking laws is slack. It is necessary to use technology to enhance the prediction and prevention of adverse consequences, and to make sure lawbreakers can't go with impunity.



Mr. Cao Tong, Chairman of XFinTech, and former president of WeBank, believes that the regulation of FinTech sector is a topic worthy of serious consideration. The topic in itself is also a contradiction. Can the inventors and promoters of financial technology and information technology be engaged in financial businesses? If over-regulated, some technologies would lack the means to spread out. This is a fresh challenge on a global scale. Britain once proposed a “sandbox” theory, similar to the “birdcage economy” put forward by Chen Yun at the earlier period of reform and opening-up, which suggests that birds can fly in the cage, but will never be allowed to go out of the cage. This principle perhaps is suitable to the FinTech industry and is echoing the characteristics of the times.

Mr. Guo Zhenzhou, the founder and CEO of Quark Finance, suggests that after reform and opening up, China’s government has also been moving along the tide. In the process of economic transition and adjustment, enterprises and regulators can seek a balance. Among regulators there are also some business talents with keen eyes on market changes. He said, “As a practitioner, we should actively embrace regulation and cooperate with them, instead of playing the cat-and-mouse game.”

Mr. Cao Feng, CIO, vice president, and chief scientist of Hande Finmaker indicated that regulation for financial technology should avoid going extremes; it should not be too strict or too loose. “A new technology will not be able to thrive under over-tight regulations”. He recalls the period when people complained cars because horses were startled by these iron-clad monsters running on the roads. Ridiculous as it may sound today, new science and technology can often come into such dilemma. Therefore, he insists that we should hold an inclusive attitude towards the development of FinTech and allow for mild but effective regulations governing the industry.

### **Opportunities and Challenges Go Abreast**

In the FinTech field, to “overtake Britain and the U.S.” is not something impossible. China actually has already surpassed the U.S. in many niche markets. Mr. Zhang Shaofeng, the founder and CEO of Bairong Financial Services, cited the success of many communication products such as the mobile payment and Wechat and the popularity of internet finance as evidence of China’s leading role in the FinTech field. He believes FinTech in China enjoys a brighter future than that of the U.S.

Mr. Cao Feng pointed out that China has become a leader in app innovations, but still lags behind the U.S. in basic technology.

Mr. Deng Di, the chairman of TAI, compared the advantages of China and the U.S. in the FinTech field. The U.S., he suggests, has advantages in creativity, innovation, diversification, and gains an edge in the core technology and new technology. This is what we should learn from them. China's advantages are attributed to the amount of entrepreneurs, allowing for large-scale production and operation.

Ms. Wan Zhe illustrated the opportunities and challenges facing FinTech industry in the future from a macro perspective. She noted that the G20 summit held in China is centered on themes of innovation, vitality, linkage, and inclusiveness; FinTech has all of the four characteristics. In the arena of global governance, FinTech has an essential role to play, but also poses new challenge to global governance.

Challenges and opportunities lie abreast in the future. When announcing the list, Prof. Ben Shenglin pointed out that China is taking the leading role in the FinTech field and the top 20 leaders represented the advanced level of FinTech industry both in China and in the world. For centuries, China had no chance to guide the development of any industry, but internet finance and financial technology now give China a rare opportunity to do so. China is at a critical juncture, and the leaders from internet finance and financial technology should dare to innovate, hold to their convictions and live up to the expectations and carry on.



## Research

### Roundtable on Money and Finance

#### **Editor's Note:**

*Roundtable on Money and Finance is IMI's signature quarterly forum, held on the second Saturday afternoon of each March, June, September and the next January respectively (adjusted for national holidays and special occasions). The forum invites financial experts and leaders from home and abroad, having featured keynote speakers including Wei Jianguo, former vice minister of the Ministry of Commerce; Su Ning, former deputy-governor of PBoC; Chen Yulu and Pan Gongsheng, deputy-governor of PBoC; Robert A. Mundell, professor of Columbia University; Edmond Alphandery, former French minister of finance; Patrick Honohan, governor of Central Bank of Ireland; Yves Mersch, governor of Central Bank of Luxembourg. Currently, the forum has become a significant platform for academic exchanges in the macrofinance, and has cast great influence among financial researchers and practitioners.*

#### **Roundtable on Money and Finance • Autumn 2016 and Sino-German Workshop on RMB Internationalization after Its Inclusion into SDR Basket**

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On October 11, Sino-German Workshop on RMB Internationalization after Its Inclusion into SDR Basket—Roundtable on Money and Finance • Autumn 2016, coorganized by IMI, the Sino-German Center of Finance and Economics (SGC), and People's Bank of China (PBoC), Deutsche Bundesbank, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and sponsored by Bao Shang Bank (BSB), was successfully held at Renmin University of China. The conference was attended by Jochen Metzger, director general, Payments and Settlement Systems, Deutsche Bundesbank; Martin Pontzen, director, Center for Technical Central Bank Cooperation, Deutsche Bundesbank; Henner Asche, deputy director general, Markets Department, Deutsche Bundesbank; Stephan Bredt, director of economy, Transportation and Regional Development, Hessen; Wolfgang Koenig and Rüdiger



von Rosen, Co-CEOs of SGC; Wu Jianhong, member of the Executive Board, Sino-Europe International Exchange; Li Minhong, executive vice president and head of Markets at Deutsche Bank China, Deutsche Bank (China); Bu Yongxiang, deputy director, Research Institute of Finance, PBoC; Liu Ye, director of BIS Division, International Department, PBoC; Lv Tingting, director of Monetary Policy Cooperation Division, Monetary Policy II Department, PBoC; Zhong Hong, senior economist, International Finance Institute, Bank of China; Lian Ping, chief economist, Bank of Communication; Hua Ercheng, chief economist, Bao Shang Bank (BSB); Wei Benhua, member of IMI Academic Committee, former deputy administrator-in-bureau (SAFE); Zhao Xijun, associate dean, School of Finance, Renmin University of China; Ben Shenglin, executive director of IMI; Tu Yonghong, deputy director of IMI. The conference was co-chaired by Ben Shenglin and Wolfgang Koenig.

In his opening remarks, Prof. Ben Shenglin put forward three points on the theme of the meeting. Firstly, monetary policies in the world are diverging, some countries adopting negative interest rates whereas others embracing rate hikes. Such a divergence is highly likely to influence the global coordination of macro economy policies. Secondly, as two major players on the global stage, China and Germany should work together to sort out the problems in global financial governance. The focuses of the two nations in this regard may differ, but this meeting is a good opportunity to communicate. Thirdly, the future trends and investment strategies in global capital market and pointed out that, after RMB's inclusion into the SDR basket, issues such as the future trend of offshore RMB market, the interaction between the onshore and offshore RMB market, and what should the capital market do to meet the financing demands of offshore RMB are highly worth of discussion.

Mr. Bu Yongxiang claimed that RMB's inclusion into the SDR basket is a result of the China's thirty years of reform and opening up, and will in turn, promote the deepening of reform and opening up. Whether RMB can play a major role in the international monetary system really depends on whether China can maintain a robust growth in a long term. RMB's inclusion brings both pressures and motives to China, mainly manifested in four aspects. Firstly, monetary policies have spillovers, which require China to embrace a more market-oriented exchange rate, and policy makers to strengthen communication with the market. Secondly, China needs to free up its capital accounts and capital market and take the opportunity of RMB's inclusion into the basket to facilitate the capital account convertibility.



In the financial market in particular, a two-way opening up of capital market is crucial to facilitate investments. Thirdly, financial regulations should be promoted. More prudent macro management measures in line with international financial regulation standard should be adopted in regulating capital flow. Fourthly, China's capacity in macro regulation should be increased, ensuring that China's regulation mechanism is aligned with the international standard and that Chinese government's behavior to be more transparent.

Mr. Henner Asche gave a brief review over the development of the international monetary system. He believed that RMB's inclusion into SDR basket is a milestone for RMB internalization and a reflection of China's elevated status in the international trade, of which the significance is no less than China's entering into WTO. China's efforts in industrial infrastructure, sustainable development and international trade laid a solid foundation for RMB's becoming international reserve currency. Referring to the theory of Impossible Trinity and the example of the D-Mark internalization, he stressed the importance of independent policy, and gave precious advice to China's opening up of capital accounts.

Mr. Stephan Bredt expressed a strong will to deepen the Sino-German cooperation. He pointed out that RMB's recent development has significant implications for the economy and finance both of Germany and of the rest of the world. RMB is gaining increasing weights in worldwide investment and trading, which means RMB's status is increasing. He believes that financial and economic cooperation between China and Germany will be a huge success and looked forward to more discussions on issues of European monetary system and the future of Asia's development, and to more sharing in experience and inspirations.

Mr. Rüdiger von Rosen shed a new light on RMB's inclusion into the SDR basket by reviewing its past and envisaging its future. The adjustment of weights for major reserve currencies in the basket allowed for a possibility for RMB to be included, and RMB is becoming an international currency. But RMB's market share still remains small, so the market, banks and the governments should have a reasonable expectation on the future of RMB internalization. With the example of the internalization of D-Mark, he claimed that a right and suitable path is vital for the development of a currency. He believed that RMB's inclusion is beneficial for China and the EU in that they can broaden the scope of current currency mechanism and achieve a better cooperation.

Martin Pontzen's speech is themed on the D-Mark and its Internationalization. He pointed out that RMB shared a resemblance with the D-Mark in its development path and exchange rate movements. He elaborated on the internalization of the D-Mark, claiming that after embarking on its internalization, the currency first depreciated and then bounced back and began to appreciate, and the opening up of the currency is relatively slow but kept stable. He warned that once a currency becomes a reserve currency, it has to shoulder extra responsibilities which might interfere with the independence of the domestic monetary policy. He stressed that the D-Mark internalization is accompanied by a sound regulation, to which the credibility of the D-Mark in the international market is attributed.

Ms. Liu Ye gave a speech on the official inclusion of the RMB into SDR basket and China's financial reform and opening-up. She asserted that RMB's inclusion into the SDR basket is both an opportunity and a challenge, and that the opening up and liberation of financial market is an unstoppable trend. RMB's inclusion into the SDR basket is a milestone for China. It represents an international recognition of China's achievements in economic progress and reform and opening up, also gave incentive and a new start for China's further financial reform. But at the same time, China still lags far behind the advanced markets, and RMB's status in global trade, financial trading, and reserves is not on a par with the US dollar and the British pound. China's efforts in expanding SDR is paying off, but strengthening SDR is an arduous task that requires a long-term hard work.

Mr. Lian Ping delivered a speech with the title RMB internationalization is entering a new period. He believed that the path of RMB internalization is switching from over relying on current accounts to a more balanced stress on both current accounts and capital accounts, from a debt-based model to a two-pronged model of both debt and asset. She also put forward four suggestions for RMB internalization. First, China needs to continue opening up its financial market and expand the RMB backflow channels and diversify the investing channels for overseas RMB holders. Second, China should keep upgrading its domestic financial market, diversify financial products, and step up efforts in building a derivative market, and improve basic systems of issuing, registering and rating. Third, proactively and steadily free up the capital accounts and improve the convertibility of capital accounts gradually. Fourth, RMB internalization shall be in consistent with the needs of the nation's long-term strategies and macro-economic development, that is, the final purpose of RMB internalization is to serve the real economy, instead of achieving internalization for its own sake.



## Macro-Finance Salon

### Editor's Note:

*Macro-Finance Salon is a high-level academic salon initiated by IMI. The salon aims at promoting the study and practice of Macro-Finance, as well as its disciplinary program, while carrying out in-depth research on Macro-Finance theory, policy and strategy. The concept of "Macro-Finance" stems from Professor Huang Da's fundamental idea of integrating macro and micro financial theory, which systematically regards finance and real economy as a whole. In the book of "General Theory of Macro-Finance", Chen Yulu, Deputy Governor of PBoC, demonstrates the fundamental connotation and methodology of Macro-Finance, laying theoretical and empirical foundation for Macro-Finance framework, which facilitates long-term economic growth and stronger national competitiveness.*

### Macro-Finance Salon (No. 37): China's Financial Reform and Innovation

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On October 16, the Macro-Finance Salon (No.37) was held at RUC. Cao Fengqi, a professor and doctoral supervisor of the Guanghua School of Management, director of the Finance and Securities Research Center in Peking University, gave the keynote speech regarding China's financial reform and innovation. The meeting was presided over by Zhang Chengsi, the assistant dean of school of Finance of RUC and the director of the Finance Department.

Prof. Cao Fengqi analyzed the development of China's financial field through innovation of China's financial theory, reform of China's financial system and deepening of financial reform in detail. He pointed out that along with the development of our market economy, marketization of corporate finance, expansion of foreign trade and international finance,

global economic integration, development of economic financialization, prosperity of world finance industry, consecutive innovation of financial system, market, technology and instruments, financial economy has already become one of the vital parts forming the global economy. He considered that currently generalized finance, namely modern finance, should be established and a deeper research regarding financial theory is needed.

With respect to the deepening of financial reform and innovation, Prof. Cao underlined that it is necessary to deepen the reform of banking system by enhancing its functions which serve the real economy and middle and small-sized enterprises, developing inclusive finance and green finance, handling the relationship between financial intermediary agent and management of assets and wealth. Non banking financial institutions are required to play its role in the legalization, transparency and normalization of informal finance. It is essential to scale up the capital market and adjust its structure with an emphasis on the investment of stock equity while duly developing the investment on debt so as to protect the legal rights and interests of investors. A further step should be taken in order to promote and perfect the financial supervision system by developing and normalizing internet finance as well as noticing and researching the block chain finance.

## **Macro-Finance Salon (No. 38): US Presidential Election and USD Interest Rate Hike**

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On November 1, Macro-Finance Salon (No. 38), co-organized by IMI and Research Center of China's Foreign Policy of RUC, was held successfully. The salon centered on US presidential election and USD interest rate hike. Foreign speakers include Bob Holden, former governor of Missouri, the chairman of Midwest US-China Association; David Oppedahl, an economist at the Federal Reserve Bank of Chicago. Chinese speakers include Wei Benhua, member of IMI Academic Committee and former deputy administrator-in-bureau of SAFE; Jin Canrong, director of Research Center of China's Foreign Policy, and vice president of University of International Relations; Ding Yifan, former deputy director of the Institute of World Development of the Development Research Center of the State Council; Wang Wenfeng, researcher of the Institute of Contemporary International Relations and the Chief



Editor of Contemporary International Relations. The salon was chaired by Di Dongsheng, researcher of IMI and deputy director of the Research Center of China's Foreign Policy.

In his opening remarks, Mr. Wei Benhua claimed that the Sino-US relations is the most important bilateral relations in the world. He recalled that President Xi and President Obama, during their private meeting in California, have suggested that the two countries should embrace a new type of relations in which the two sides will strengthen their mutual trust, improve cooperation, seek common ground and joint hands in building a stable and prosperous Asia-Pacific region. Meanwhile, he looked forward to more cultural communication between China and the U.S.

Mr. Bob Holden stated that Midwest US-China Association has made significant contributions to the friendship between China and the U.S, especially in education, culture, commerce and environment. He encouraged Chinese students to study and travel in the Midwest U.S. As for the election, Holden stressed that in recent years, colored population has risen tremendously and has become an important part of the U.S population. At the same time, traditional idea of white male dominance has been shaken by many factors, for example, the rising status of women, the LGBT rights movement, so much so that the candidates in this election have to put more emphasis on education, children's care and public services during their campaign. He pointed out that no matter who would eventually win, rebuilding trust and understanding among American people should be put at the priority. For China and the U.S, cooperation and communication would always be the main course. Holden also share his views on the U.S economy. He suggested that the manufacturing in the U.S has no way to come back, therefore, developing technology and creating jobs in other sectors seemed inevitable. To solve the problem of unemployment, more investment should be made in education and infrastructure, and social security and medical care should follow up. Globalization is unstoppable, the government should do as much as it can to help the middle class to participate in the global economy. He also indicated that the U.S is pleased to see a prosperous China, for the rising of China is not a threat but an opportunity for the U.S.

Mr. David Oppedahl gave a speech on the U.S economy and the possibility of an interest rate hike. He pointed out that the two indicators determining the rate adjustment are unemployment rate and inflation rate. The rate hike could only happen when the unemployment rate keeps low and the inflation remains stable. The meeting of Federal Open Market Committee to be held next week will conduct an analysis on data and is likely to increase the interest rate if market conditions are promising. The FOMC meeting last

September forecasted that current inflation rate is about 1% and will rise in the short term, very likely to reach the target of 2%. In terms of employment, 2.4 million jobs were created last year, but wages didn't increase as the unemployment rate went down. The reason lies in the low productivity and the sluggish investment. Seen from the Q2 statistics, consumption remains robust but investment is below zero. Real estate took a downturn also; despite of a low mortgage rate, many borrowers didn't reach the standards set by banks, therefore, failed to boost the housing demand. Plus, a strong dollar also caused impact to the U.S export. Oppedahl stated that it is still too early to predict the outcome of the meeting, but according to most of the FOMC members, the rate should be kept under 3% to a long run. He believes that the U.S economy is faring well in general and is able to achieve the growth rate of 2%.

Mr. Wei Benhua made comments on Mr. Oppedahl's speech. He argued that the U.S, as the largest economy in the world, would generate spillovers to the rest of the world with its economic activities and monetary policies. History showed that every time the U.S increased its interest rate, the emerging markets would suffer from financial turmoil and capital flight. Therefore, he suggested the Fed take the interests of the emerging markets into consideration when making monetary polices. Besides, the U.S economy will not achieve the goal of 2% growth until 2019, the time for an interest hike has yet to come.

Prof. Ding and Wang also made their comments on the meeting. Later, the audience and the speakers had an interaction around topics of the U.S election and economy.

## **Macro-Finance Salon (No. 39): Supply-Side Reform, Idle Liquidity and Asset Allocation**

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On November 5, Macro-Finance Salon No. 39 was held. Guan Qingyou, vice president of Minsheng Securities and dean of Minsheng Securities Academy, gave a keynote speech on supply-side reform, idle liquidity and assets allocation. Zhao Xijun, associate dean of School of Finance, and IMI deputy director Tu Yonghong joined discussion. This salon was hosted by Qu Qiang, assistant director of IMI.

Guan Qingyou analyzed current macro economy, introduced supply-side reform and shared his view on fiscal policy, real estate market and asset management. He pointed out the growth of GDP stood for 3 quarters because of the management of demand-side and the positive influence of fiscal policies. The government still has room to add leverage. The tightened control of real estate restrained the short-term real estate price and its impact on macro



economy will be embodied in the second quarter of 2017. There are some risks involved in asset management. The severe “upside down” of the liability-side cost and returns on asset may trigger commercial banks to redeem the entrusted investment and largely impact the market. The stricter supervision would also lead to a violent fluctuation in the market. In the low interest rate environment, an increase in allocation of equity assets will work itself out and oversea acquisitions will be an optimal choice that worth consideration for the insurance and finance companies in the short term.

Prof. Zhao Xijun pointed out that we should look for the opportunity with current macro economic situation and pay more attention to the risks. Prof. Tu Yonghong considered, with the current global situation, we should be more aware of the importance of foreign market enlarge the market to the Belt and Road countries to lower the risks.

In the Q&A session, the audiences raised questions regarding the monetization of gold, bulk commodity allocation and the expectation of CPI, etc.

## **Macro-Finance Salon (No. 40): Trend and International Status of RMB**

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On November 3, Macro-Finance Salon No. 40 was jointly held by IMI, Brookings Institution-Tsinghua University and Penn-Wharton China Center. Eswar Prasad, a senior researcher at the Brookings Institution, former China director of IMF, and professor of Cornell University, made a keynote speech on the trend and international status of RMB. Prof. Ben Shenglin, founder of executive director of IMI, Prof. Tsai Wan-Tsai and Prof. Marshall W. Meyer from Wharton School at the University of Pennsylvania participated in the discussion. This salon was chaired by Guan Xin, the anchor of CCTV-NEWS.

Eswar Prasad introduced the rise of RMB, the development of international monetary system, the development of China’s economy and the the role of RMB’s internationalization in China’s economic reform, specifically, capital account liberalization, floating exchange rate, the procedure of developing a mature financial market, balance of risk and return in economic transition, benefits and potential risks of capital account liberalization, and the requirement of China’s financial reform in the internationalization of RMB.



In regard to capital account liberalization, he pointed out, although China has a large amount of savings, it's still beneficial for China to liberalize the capital account to absorb foreign investment because it contributes to promoting diversification of domestic investment and introducing the advanced technology and managerial experiences of enterprises. Regarding the reform of China's financial market, he suggested that the advantage of being a creditor country should be fully exploited and foreign exchange balance sheet must be balanced in order to internationalize RMB. Concerning the trend of RMB's exchange rate, he made it clear that along with the ubiquitous usage of RMB in foreign trade settlement, the amount of RMB-denominated bonds has been increasing, showing that the share of RMB in global settlement is growing and RMB gradually plays a more important role in global payment. As RMB became one of the reserve currencies, China's financial market needs to improve its liquidity, reinforce the establishment of financial infrastructure, diversify financial products and instruments, improve supervision mechanism and transaction environment. Challenges are waiting for the internationalization of RMB. About the stability of China economy, he considered that there are many risks. RMB may play a more important role in the next three to five years. However, considering the unsolved internal policy issues, the internationalization of RMB may have its twists and turns.

During the discussion session, the panelists discussed how to make RMB an authentic international currency and whether the "One Belt and One Road" Initiative can promote the internationalization of RMB".

In the foreseeable future, RMB will not replace US dollar and RMB's internationalization is facing a dilemma which calls for a better method to deal with its transition. He put forward that there are two vital criteria of being an international currency - capital account convertibility and flexible exchange rate system. However, sufficient evidence cannot be found from theory and practice to prove that capital account convertibility and flexible exchange rate system can definitely benefit countries other than the US. He held the opinion that when the diminishing growth of international trade is taken into account, the overseas investment of China's enterprises will largely promote RMB's internationalization. After RMB's inclusion into SDR, the establishment of a new structure aiming to negotiate the exchange rate between major currencies should be considered thoroughly.

Marshall W. Meyer raised questions regarding Eswar Prasad's speech, including: Is



signing swap agreement really helpful to Chinese economy? What will China do to deal with the bubbles and capital flight? How can China take full advantage of reserve currency? Are banks in China willing to reform thoroughly? From his point of view, China's oversea investment already surpassed the FDI. Massive China enterprises investment in foreign country will lead to more RMB settlement, therefore, promoting RMB internationalization. Meanwhile, he pointed out that liberalization of capital account may have negative impact on China economy's stability.

Ben Shenglin held that exchange rate is not only an economic problem for the political and military factors weight as well. The most urgent thing for China to do is to make RMB an asset currency. Now, China hasn't completely liberalized capital account and RMB's exchange rate is not fully flexible. Promoting China's trade capacity is the most important goal under the background that China's capital market falls behind the US and the size of derivative market is too small. The international position of RMB is actually decided by the strength of China's financial market and the quality of financial institutions.

Eswar Prasad expressed his view on the proper measures for China government to balance the risk and impel financial reform. He put forward that the contribution of exchange rate and the capital account liberalization to the development of China's capital market depends on the works done by decision makers and government officials who manage and supervise the financial market. He believed that flexible exchange rate policy can play a better role in buffering the emerging market. He indicated that for all the countries, increasing domestic demand through currency depreciation (as lots of countries did) is no more helpful than promoting economic growth and coordinating on policy making when solving the long-term problem.

Eswar Prasad answered several questions from the audience regarding the correlation between the US financial crisis and capital account, the importance of economic fundamentals to the rising of RMB, how RMB's internationalization may influence US economic policy, how the central bank can solve the inflation. He emphasized that the gradual liberalization of China's capital account deserves adequate intention and violent fluctuation in domestic capital market should be avoided.

## **Macro-Finance Salon (No. 41): Past and Present of CDS and Its Application in China**

On November 12, Macro-Finance Salon (No. 41) was successfully held in Mingde Main Building of Renmin University. Dr. Fan Xiwen, CRO of China-Latin America Cooperation Fund, delivered a keynote speech on the past and present of CDS and its application in China. The Salon was chaired by Prof. Song Ke, deputy director of IMI.

Dr. Fan Xiwen explained the basic situation of CDS in detail and described the characteristics of CDS from the perspective of credit, risk, target and its impact on basic assets, and offered several suggestions to CDS's application in China by analyzing what CDS in the US has brought to the financial market.

Dr. Fan pointed out that CDS is a revolutionary tool in the financial market, it isolates the risk from liquidity, the trading parties make transactions based on CDS credit risk. In his view, CDS is a derivative, but in fact is not limited by the underlying asset stock, in a morally imperfect market there may appear empty shell credit problem, there are also counterparty risks, which may easily lead to systemic risk. At the same time, CDS is also a hedge bond risk of financial instruments, and can precisely reflect the basic situation of basic assets. Speaking of the impact of the US CDS on the financial crisis, he pointed out that the combination of regulation and financial markets makes pre-crisis CDS risk premium at a very low level for a long time, and thus cannot mirror the market system risk aggregation. A series of issues ranging from pricing to recovering to supervision must be addressed before applying CDS in China.

Liu Qingsong, former division chief of CBRC Henan Branch, put forward that CDS is a double-edged sword. In principle, it can achieve the risk of isolation and transfer, but in fact it does not change the risk of underlying assets. In the process of risk transfer, risks may spread and increase. So how to solve such a contradiction is a problem that needs to be considered in the process of exploration. He stressed that China needs to improve the relevant laws and regulations, including the accounting system, tax system, market norms, to promote diversification of participants and trading products diversification, improve market transparency and effectiveness of information disclosure, and promote open regulation, and thus establish a real CDS market.



Tu Yonghong, deputy director of IMI, suggested that from the perspective of China's deepening financial system reform, the purpose of restarting CDS is to establish risk transfer mechanism, promote RMB internationalization and clear the bubbles in domestic real estate. To achieve these goals, it is necessary to better design CDS products that clearly identify risks, while promoting regulatory reform and enhance education in these areas.

Wang Wei, director of Fixed Income Research Department of Bank of China International (Hong Kong), pointed out that CDS hedging tools gradually derived as an investment tool, in fact, there are many potential risks. He believes that China needs to make clear CDS positioning and related provisions to ensure the equality of its operation by laws and regulations.

### **Macro-Finance Salon (No. 42): Latest Changes in Offshore RMB Market**

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On November 20, Macro-Finance Salon (No.42) was held at Renmin University of China. Mr. Ying Jian, the senior research fellow of Bank of China (Hong Kong), delivered a keynote speech on latest changes in offshore RMB market and hotspot issues. The meeting was presided over by Prof. He Qing, the deputy director and professor of Department of Finance of Renmin University.

Mr. Ying elaborated Hong Kong offshore RMB market from the perspective of formation, challenges and opportunities, analyzed some hotspot issues regarding offshore RMB market and shared his views on the reasons and future trend of RMB depreciation. He pointed out that after the “8.11 reform”, offshore market demonstrated the following new features: offshore exchange rates fluctuations led to the upside down of onshore exchange rates, the widening CHY-CNY spread triggered cross border arbitrage and liquidity crunch caused the offered rate upside down. The market also showed several kinds of typical cross-border arbitrage and short selling. He mentioned that measures such as foreign exchange settlement and sale administration, outflow control, expectation management and international cooperation can be taken to respond to RMB fluctuation. He considered that Hong Kong RMB business is being challenged, bond issue turns bleak and RMB loan business is also influenced; meanwhile, RMB business faces important development opportunities: the opening of capital account brings opportunities of cross-border transaction, the RMB’s inclusion in the SDR stimulates

the demand for RMB reserve and the establishment of free trade zones facilitates the outflow of wealth. He also shared his opinions on the RMB exchange rate arbitrage mechanism of capital account. As for the future trend of RMB, he stated although RMB was a little weak recently, it is by no means a weak currency. As China's economy keeps a stable and continuous growth, RMB has no potential for significant depreciation.

Tu Yonghong, the deputy director of IMI, extended her gratitude to Ying Jian. She believed that Mr. Ying made his speech lively and explained complicated issues in a simple way. The speech not only talked about policy changes in the changing market and the original intention and effects of the policies, but also analyzed whether the policies delivered the expected outcomes and how to solve problems in RMB internationalization. The speech integrates theory with practice, delivering fruitful results.

Wang Fang, the assistant dean and associate professor of School of Finance of RUC, expressed her views on capital and finance account in RMB internationalization. Both Prof. Tu and Prof. Wang said the case of Hong Kong offshore RMB market fluctuation after "8.11 reform" is a very good case to study for students.

## **Macro-Finance Salon (No. 43): Strong Dollar Is A Double-Edged Sword**

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On December 15, the Macro-Finance Salon (No.43) was held at RUC. Xie Yaxuan, IMI researcher, head of macroeconomic research, Research & Development Center, China Merchants Securities, Co. Ltd., gave the keynote speech titled "Strong Dollar is a Double-Edged Sword". Discussants include IMI researchers Lin Nan, Peng Yuchao, Xiong Yuan, Xiu Jing, Jiang Nan and Jing Linde. The meeting was presided over by Qu Qiang, assistant director of IMI.

In his speech, Mr. Xie shared his views on the domestic and international impact of a strong dollar, and on its cause and prospect. This salon included an internal seminar and a live broadcast. After the speech, Mr. Xie exchanged his ideas with other guest speakers and answered questions online. The discussion created a warm atmosphere.

With regard to the global impact of a strong dollar, Mr. Xie mentioned that US dollar is the primary currency in the world, its spillover effect is the major source of the current RMB depreciation expectation. He noted that a strong dollar may have some negative effects on



other countries, especially emerging countries like China. A strong dollar will lead to capital outflow in emerging markets, and will also encourage the household sector to increase the holding of foreign assets.

In terms of a strong dollar's impact on the US, Mr. Xie thought that it was a double-edged sword. A strong dollar imposes constraints on US economy and currency and the further development of US dollar. He said that RMB's share in US Dollar Index increased from 6.8% in 2000 to 21.9% in 2015. Such increase is vital. In the world, there are potential currency areas for China in its neighboring countries and areas, which are closely related with China in economic development. China will also push the mutual impact between emerging markets and developed economies to some extent.

As to the cause and prospect of a strong dollar, Mr. Xie said that there were still arguments on the cause. On the one hand, one rate hike just occurred due to domestic reasons; on the other hand, a strong dollar might be the result of the competitive devaluation of Yen and Euro. For China, Mr. Xie believed that the imbalanced supply and demand of foreign currencies would be eased in the future. And private sectors would increase the need for foreign assets and there would be room for the increase of foreign debts. The opening of the debt market is expected to bring the inflow of 420 billion dollars in 5 years.

## **Macro-Finance Salon (No. 44): World Economy and China**

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On December 17, Macro-Finance Salon (No. 44) was successfully held in Renmin University of China. Dr. Hua Ercheng, chief economist of BSB, delivered a speech on world economy and China. The salon was hosted by Qu Qiang, assistant director and researcher of IMI.

Dr. Hua pointed out in his speech that we are now in the post-global-financial-crisis era. The global economy has entered into a New Normal: the growth recovery is weak and below expectation. Those western developed economies have adopted close-to-zero or even negative interest rate in their monetary policies to stimulate the economy, but the recovery is slower than expected. The US economic recovery is better, but still not strong enough, indicated by

the high degree of uncertainty in FED's act in raising the interest rate. Emerging economies have been hit by a capital outflow caused by US dollar's appreciation and china's economic slowdown. The prices of raw materials including oil slump and economic growth slows down. The New Normal hinders global trade. Its growth rate was higher than that of economy before the crisis, now it is lower. At the same time, in the context of real income stagnation, unfair and substantial expansion, populism, anti-globalization movement began to rise in western developed economies. Dr. Hua believes that the current global economy is urgently needed to implement "structural reform" to improve productivity and to achieve inclusive growth.

Dr. Hua also pointed out that after the financial crisis, China's economic restructuring and transformation, and upgrading has achieved substantial progress. The economy is rebalanced and embarked on the road of sustainable development. Production is transitioning from the secondary industry to the tertiary industry. Demand is changing from the external demand to domestic demand, from investment to consumption. When the global economy shrouded in the shadow of anti-globalization, China should go against the tide and actively promote an innovative, invigorated, inclusive, and interconnected globalization . The inclusion of the RMB in the SDR marks a milestone in China's achievements in reform and opening up to the outside world and reflects the expectation that China will further push forward reform and opening-up.

Through in-depth analysis, Dr. Hua stressed that in the current era of weak global economic growth, the task to let the Chinese economy continue to be full of vitality, leading the world economy inclusive growth, to achieve mutual benefit and win-win, is in need of China wisdom. He hoped that we can work together to provide solutions for China and the global economy and make new contributions to the development of the Asia-Pacific and global economy.



## Macro-Finance Salon (No. 45): Issues on RMB Exchange Rate

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On December 22, the Macro-Finance Salon (No. 45) was held at Room 801, Mingde Main Building, Renmin University of China. Sun Lujun, board member of CNIC Corporation Limited, delivered a keynote speech on issues concerning RMB exchange rate. This salon was presided over by Tu Yonghong, the deputy director of IMI.

Mr. Sun first overviewed three major landmarks for RMB exchange rate reform, at the beginning of 1994, July 21, 2005 and August 11, 2015. He believed that since the 8.11 exchange rate reform, RMB exchange rate fluctuation has the following features. Fluctuation became obvious; CFETS, BIS and SDR RMB exchange rate indexes are relatively stable; RMB-USD exchange rate fell considerably; price gap between onshore and offshore RMB is even greater. These features are resulted from both internal and external factors. External factors include employment recovery in US, increase in inflation and dollar index, penetrating “Trump Effect” and slow recovery of EU, Japan and other developed economies. In the perspective of internal factors, China’s macro economy operates within a reasonable range, but the root problems have yet to be tackled, with new ones emerging. In addition, domestic capital flow and expectations for lower exchange rate have considerable impact on RMB exchange rate. He pointed out that US dollar gradually becomes stronger; we will face pressure in depreciation and capital outflow. Balance of payments surplus will decrease and control on capital outflow will be strengthened. Therefore, we will have much pressure in controlling outflow and reserve and stabilizing exchange rate. Relevant policies need to be formulated in advance. Lastly, he made policy suggestions on issues concerning RMB exchange rate regime and reform in the future.

In the Q&A session, audiences raised questions and shared views over Trump’s tax cut and interest rate hike, policies to expand infrastructure construction, foreign reserves, balanced exchange rate and overseas investment. Mr. Sun gave answers to all these questions.



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## **Macro-Finance Salon (No. 46): Enterprise Financialization, Real Estate and Economic Fluctuation**

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On December 24, the Macro-Finance Salon (No. 46) was held at Room 605 of Culture Square, Renmin University of China. IMI researcher Peng Yuchao delivered a keynote speech on Enterprise Financialization, Real Estate and Economic Fluctuation. The meeting was presided over by Su Zhi, IMI senior researcher and professor of School of Statistics and Mathematics, Central University of Finance and Economics.

Mr. Peng first analyzed the status quo and data on real estate. He looked into the relation between housing price and PPI in the U.S. When housing price deviates from PPI, there will be fluctuations in housing price. Fixed asset investment moves inversely to real estate investment. When fixed investment is favored, real estate investment will decrease. However, if the real economy worsens, companies will invest in other sectors to make profit, with most of the capital flowing into real estate market. He established a theoretical model to analyze factors that affect real estate market and enterprise financialization. Peng supposed that there are two kinds of investment in the economy, financial contracts and productive investment. Enterprises will invest in the one that generates the most profits. When financial contracts are highly profitable, enterprises will choose to invest in financial contracts, with most of the invested capital in real estate. Other factors that boom counter real estate market include households, retailers, monetary policies, capital producers, and real estate developers. Through calculation fitting, the model was found to be consistent with real situation. After analysing his model, Mr. Peng concluded that impact on real estate to a large extent results from consumption. Only 30% of the housing price change is caused by changes in the real economy. Lastly, based on China's national situation and his model, Peng provided several policy suggestion for the government.

In the Q&A session, audience raised questions about the counter-cyclical housing boom in China. Prof. Su pointed out that the rising housing price in recent years was caused by leverages in the household sector. He hoped that Mr. Peng's thesis can based on China's real situation and analyzes factors that affect China's housing price in different stages so as to further improve his research.



## **Macro-Finance Salon (No. 47): The Influence of Trump’s Team and Other Political Forces on His Economic Policy**

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On December 29, Macro-Finance Salon (No.47) was held in RUC. The Salon invited Mr. Wu Zhifeng, senior researcher of IMI, and Wu Qing, researcher of the Development Research Center of the State Council, to deliver keynote speeches on the influence of Trump’s team and other political forces on his economic policy. The meeting was presided over by Prof. Su Zhi, senior researcher of IMI and professor of the School of Statistics at Central University of Finance and Economics.

Wu Zhifeng’s speech focused on four aspects: first, Trump’s election reflects “a major change in the trend of thought”; second, Trump’s future policy will have “two fundamental points”; third, Trump’s future policy will emphasize on “three priorities”; fourth, Trump’s new team mainly consists of “four groups of people”. He pointed out that Trump’s election reflects the contest between populism and globalization. Globalization increases efficiency of the world, and China, a country moving from a planned economy to a market-oriented economy and engaging in the process of globalization, is the beneficiary. But established developed countries and marginalized countries do not benefit from globalization, especially the blue-collar whites in the U.S. are left behind. Wu also noted that, Trump’s future policy may have two fundamental points, one is the deep-rooted tradition of “state autonomy”, the other is the religious thought of Puritan and Calvinism. He said that Trump may have three policy priorities: First, he will boost US domestic economy, which won’t just be a slogan but a commitment that will sure to become true, and he will also revitalize US manufacturing industry. Second, he will cut taxation substantially for attracting more global manufacturing companies. Third, as for international trade, Trump may halt TTP, which will put pressure on China. He believed that Trump’s new team mainly consists of four groups of people: the white, the rich, army men and madmen, and these people will affect Trump's future economic policies.

Wu Qing believed that Sino-US relationship should “focus on facts but not specific individuals”, that the US should be rendered as a friend, not an enemy. He emphasized that the execution of Trump team is strong. Because it is a team of soldiers and multinational company executives who are capable of pushing ahead, Trump policy may be implemented ahead of schedule. He stressed that for Trump and his team, Sino-US relationship is not only important but even a policy focus. Trump had said that Americans wanted their jobs back, and China would be the first to be affected. This transfer will have asymmetric effects on China and the United States, meaning China will be more affected. Wu said that China still considers Sino-US relationship as one of the most important diplomatic relationships, and only a healthy Sino-US relationship can help China participate in the future of the civilized world and engage in a new round of globalization.

During the roundtable discussion, Tu Yonghong said that Trump’s policy resembled Reagan’s policy; Chen Qiqing said that analysis of Trump’s team staff should first identify who could really influence Trump; Xu Zhaoying analyzed this issue from the perspective of Sino-US international relationship.



## McKinnon Lectures

### Editor's Note:

*As a highly respected economist of our time, Professor Ronald McKinnon is the founder of modern financial development theory. He was appointed as member of Advisory Board since the establishment of IMI in 2009, and made enormous contributions to its development. After he passed away in October 2014, his family generously contributed 1897 books from his personal collection to IMI. Therefore, we changed the name of “IMI Lectures” to “McKinnon Lectures” in perpetual memory of him. By “walking out” and “inviting in”, McKinnon Lectures invite a number of prestigious experts and scholars from China and abroad lecturing on macrofinance theories and relevant policies.*

### **McKinnon Lectures (No. 7): The Present and Future of China's Exchange Rate Policy and Regime**

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On October 22, McKinnon Lectures (No. 7) was held at RUC. Mr. Yu Yongding, academic member of Chinese Academy of Social Sciences, researcher and PhD supervisor at the Institute of World Economics and Politics, the president of China Society of World Economics, member of the Committee for Development Policy at the UN, made a keynote speech on the present and future of China's exchange rate policy and regime. The meeting was chaired by Prof. Song Ke, deputy director of IMI.

In the speech, Mr. Yu introduced the classification of exchange rate regimes, briefly reviewed the evolution of China's exchange rate regime, elaborated on the features, operation and the limits of China's new exchange rate regime and finally discussed the reforming direction of the new regime.

To start with, he elaborated on the features of different exchange rate regimes and the definition of basket currency through IMF's classification of exchange rate regimes and analyzed the 20-years-evolution of China's exchange rate regime under IMF's classification. He considered that 8.11 reform was an important step towards a floating exchange rate which is significant to the reform of our exchange rate regime. In his opinion, the change in closing price of RMB exchange rate reflects the direction and intensity of RMB's depreciation and appreciation pressure in the foreign exchange market—relating the central parity rate with previous day's closing price reflects the monetary authority's desire of releasing the pressure of depreciation or appreciation and clearing the market. He emphasized that the announcement of "closing price+24-hour basket currency stability" pricing mechanism fulfilled the market demand for the transparency of central bank's exchange rate policy but increased the difficulty in predicting RMB's exchange rate in mid-to-long term.

According to the definition of CFETS index, Mr. Yu used an identical transformation of its formula and divided CFETS index into three components: exchange rate of RMB against USD, the dollar index, and exchange rates of other currencies against USD. He analyzed the depreciation of RMB against USD, the reason of CFETS's fall and the central bank's true intention of bringing in the factor of basket currencies by looking at the track of exchange rate of RMB against USD, the dollar index, and exchange rates of other currencies against USD. At the end of his speech, Mr. Yu underlined that the target of China's nominal exchange rate and the exchange rate against basket currencies can hardly be both taken into account because there is a conflict between the target of China's nominal exchange rate and the target of exchange rate against basket currencies.

In the Q&A session, Mr. Yu patiently answered the questions from the audience, regarding the impact of an increase in interest rates by the FED on RMB, other factors that cause the short-term fluctuation in the exchange rate of RMB, the importance of currency policy's independent target, the role of gold in stabilizing exchange rates. He came up with unique opinion, pointing out that the long-term trend of the fluctuation of RMB's exchange rate is eventually decided by the growth of China's economy.



## **McKinnon Lectures (No. 9): The Eurozone Outlook in the New Global Environment: Brexit, Trumponomics, Japan and China**

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On December 1, McKinnon Lectures (No. 9) was held at Mingde Main Building of Renmin University. Mr. Edmond Alphandery, member of IMI Advisory Board, Chairman of the Euro50 Group, and former French minister of the economy, gave a keynote speech on “The Eurozone outlook in the new global environment: Brexit, Trumponomics, Japan and China”. The lecture was chaired by Mr. Wei Benhua, member of IMI Academic Committee, former deputy administrator-in-bureau of SAFE.

Speaking of the impact of Brexit, Mr. Alphandery pointed out that, according to the economic estimates, in the next five years, the United Kingdom’s GDP will drop by 2.5%, and inflation rate will rise by 2%. Meanwhile, because Britain’s proportion of exportation is relatively low for countries outside the Eurozone, Brexit will not impose too much impact on these non-Euro countries. But generally speaking, Brexit is inimical to free trade and globalization, as well as the free flow of factors of production.

As to the influence of Donald Trump’s election as the President of the United States, Mr. Alphandery said, Trump claimed to implement protectionist trade policy, and China is likely to bear the brunt of it. On the other hand, because China’s chief export destinations are emerging economies, and China is also likely to counter the US in automobile and mobile industries. Thus China still has certain competitive edge in international trade. In his opinion, seen from the history, the trade protectionism that Trump promised is not acceptable, and meanwhile Trump’s plans to cut taxes for enterprises and the rich and increase public spending may as well lead to overheated economy, thus inducing inflation.

By comparing different economic indicators, Mr. Alphandery believed that China’s economy does not confront major risks and will not fall into the liquidity trap that once trapped Japan. He pointed out that China is now at an optimistic transition period in which the manufacturing sector declines while the services sector rise, the debt scale is under control, and the gap between savings and investments is gradually narrowing. Meanwhile, China’s quantitative currency policies help stimulate demand and the reforms in SOEs help facilitate economic transition, ensure employment, and ease overcapacity.

For the Eurozone forecast against the new global situation, Mr. Alphandery held that generally speaking, the Eurozone crisis is over, so all countries should proactively pursue reforms and create a favorable environment for investments. He specifically analyzed that although in the Eurozone the bank lending to the private sector is sluggish and overdue non-performing loans are inclined to mount; the unemployment rates in some countries have dropped; the economic growth begins to rebound; the deficits are under control; and the capital adequacy ratio is rising.

## **McKinnon Lectures (No. 10): Opportunities and Responsibilities of RMB, Hong Kong currency and SDR**

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On December 10, McKinnon Lectures (No. 10) was held successfully in Renmin University. Xiao Geng, professor of Practice in Finance and Public Policy, School of Business and Faculty of Social, University of Hong Kong and president of Hong Kong International Finance Society, delivered a keynote speech themed on historical opportunities and responsibilities of RMB, HKD and SDR. Prof. Tu Yonghong, deputy director of IMI, presided over the lecture.

Starting from globalization, Prof. Xiao analyzed China's lessons of experiences in the process of marketization. He elaborated on the core competitiveness of RMB internationalization and brought up his own opinions on establishing and developing international public infrastructure and monetary system.

Prof. Xiao pointed out, driven by revolutionary technologies like the internet and AI, globalization has developed rapidly during the past two decades. Transaction costs dropped in a big margin and multinational companies were increasingly expanded. Globalization has exerted great impacts on parts of traditional industries, threatening social stability to some extent and even leading to anti-globalization movement. However, the development of technology determines that globalization trend is unstoppable. In this context, China's marketization should not only remain on the surface, but go deeper to the essence, promote freer capital flow and at the same time continue the strategy of "following the dollar", so as to maintain the stability of RMB exchange rates.



Prof. Xiao also stressed that RMB's core competitiveness lies on national debt market, as non-risk market interest rates played an important role in market pricing. But China's current interest rate market lacks breadth and depth. The pricing is inconsistent with the real needs of China's real economy and requires further reform and experiences from the national debt market in developed countries. Meanwhile, China, with 1/5 of the world's population and as the representative of emerging markets, should take on the responsibility of providing financial public services for emerging markets economies and mitigate their contradiction with developed countries headed by the US, especially after RMB's inclusion in the SDR basket.



## Tao Xiang International Finance Lectures

### Editor's Note:

*Professor Tao Xiang is one of the famous educators of international finance in China, and he is also the founder of international finance subject in Renmin University of China, who is at the meantime highly admired by a number of students. At the 10th anniversary of the professor's pass-away, proposed by graduates who had majored in international finance in RUC, the School of Finance and International Monetary Institute of RUC initiate the Tao Xiang International Finance Lectures, invite experts and scholars in international finance to give lectures and share their experience with the students, in order to cultivate outstanding talents for China to develop into the global finance center.*

### Tao Xiang International Finance Lectures (No. 6): Controlling Credit Granting Risk of Commercial Banks

On October 15, Tao Xiang International Finance Lectures (No.6), co-organized by IMI and School of Finance of Renmin University, was held at RUC. Sun Jianlin, senior researcher in Risk Management Department of CITIC Bank, made a keynote speech on controlling credit granting risk of commercial banks. The meeting was chaired by Prof. Tu Yonghong, deputy director of IMI.

To begin with, Mr. Sun introduced the concept and classification of credit granting, the differences and correlation between credit granting and credit, and said that the categories of bank credit granting business as well as the critical points should be grasped by the bank workers. In addition, started from the management of credit granting, he compared bank's loan business to a sea which has subterranean current running beneath its seemingly placid surface and guide us to analyze the bank's risk in the macro, medium and micro levels. Finally, he put emphasis on the ideas and measures of bank's risk management, explained the methods of bank's risk management in the macro, medium and micro levels and gave lots of advice to the audiences, encouraging them to become brilliant employees in the future.



## **Tao Xiang International Finance Lectures (No. 7): The Practice of RMB Foreign Exchange Transaction**

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On November 26, the Tao Xiang International Finance Lectures (No. 7), co-organized by IMI and the School of Finance of Renmin University, was held at RUC. Mr. He Xiaobo, senior trader from Global Markets Department of Bank of China Head Office, discussed about the practice of RMB foreign exchange transaction and some related hot issues. The lecture was chaired by Wang Fang, senior research fellow of IMI and associate professor from the School of Finance of RUC.

First of all, Mr. He briefly introduced the career as a trader combined with his own experience, such as a trader's working environment and process. Besides, he also introduced the information systems and trading platforms commonly used in foreign exchange market. He pointed that the essence of transaction is actually a probability game, it can't be easy to get long-term profits in transaction market. So we need to study hard, and collect experience from transactions.

Secondly, Mr. He briefly introduced the basic condition of RMB market, and highlighted the differences and connections between onshore RMB market and offshore RMB market. By combining his own working experience in the offshore RMB market in Hong Kong, he introduced some major products in the RMB market, such as forward exchange, currency option and dim sum bond.

At last, he talked about the 8.11 exchange rate reform. He thought this reform improved the transparency of the price mechanism of RMB central parity rate, integrated the offshore RMB market and onshore RMB market, and narrowed the spread between the two markets. He then analyzed the recent depreciation of RMB, and said that RMB is still the most stable currency of emerging countries. There is no need to be over panic. As to the future of RMB, he mentioned that in order to stabilize the exchange rate, reserves and internalization, we need to choose new policies. Stable reserve, internalization and floating exchange rates are the most probable choices.

## Exchange

### Launch of IMF World Economic Outlook

On October 12, the Launch Meeting of IMF World Economic Outlook 2016 was held at Renmin University. The meeting was co-organized by IMI and IMF China. Mr. Wei Benhua, former deputy administrator-in-bureau of SAFE, Mr. Alfred Schipke, IMF Senior Resident Representative for China, Mr. Esteban Vesperoni, Mr. Marcos Poplawski-Ribeiro and Mr. Lian Weicheng, three economists from the research department of IMF, attended the conference and delivered speeches. Mr. Zhang Zhixiang, former director-general of the International Department of PBoC, presided over the meeting.

Mr. Wei gave a welcome speech in which he gave a brief overview of China's urbanization and the OBOR Initiative. He confirmed the urgency in China to pursue an economic transformation, and also confirmed China's headroom for further growth. He pointed out that China should maintain a steady restructuring process, continue pressing ahead with reform, facilitate policy communication and minimize the spillover effects. Also, he suggested that the spillover effect is not the main culprit in the current global economic slowdown. To pin down the causes behind, an overall analysis and more comprehensive perspectives are needed.

Mr. Alfred Schipke gave a brief overview of global outlook and recent developments in China. He claimed that this conference was the first meeting of world economic outlook after RMB's inclusion into SDR, and therefore, was of profound significance. According to him, in terms of the world economy, main changes in recent months are as follows: growth performance in emerging markets (EMs) is improving; the financial market sentiment toward EMs has become more upbeat; commodity prices are firmed and capital flows have picked up. Despite of the positive signs, he further pointed out, the world remains to be heterogeneous, considering that advanced economies (AEs) continue to differ significantly in extent of post-crisis repair, and that some of the emerging market and developing economies (EMDEs) still face challenging conditions. He believes that the downside risks are mainly from



protectionism, stagnation in AEs, China's transition and financial volatilities in EMs. He suggested that countries should continue a three-pronged approach, namely, accommodative currency policy, fiscal support and structural reform; in addition, stabilize the financial market and expand multilateral cooperation. In terms of China's slowdown and restructuring initiative, he pointed out that despite of China's less reliance on industry and investment in GDP and its fast-growing service and consumption, China's economy is still vulnerable, as a result of its persistent dependence on credit. He suggested that Chinese government take targeted measures, which include solving the problem of corporate debt, stopping credit stimulus and accepting an economic slowdown, preventing and controlling financial risks, moving toward an effective and flexible exchange rate mechanism, promoting policy communication, and improving the transparency of data.

Mr. Esteban Vesperoni made a speech on spillover effects. He confirmed that china's economic transformation will have positive effects on global economy in the long term but spillover effects are inevitable. After 2000, China is gaining pace in integrating into the international financial market, therefore, its transmission through trade, commodity consumption and asset prices will be amplified by financial markets. It is critical for China to take prudent measures in the transition period, to strengthen regulations as well as policy communication to minimize the spillover effects. Recipients economies should use buffers if available but need to plan for adjustment given lower demand. He also pointed out that migration brings both challenges and opportunities. In the short term, a migration influx might stir social tensions in recipient countries, but in a longer view, the increase of labor force with medium-to-high skills will supplement the local labors and improve the labor market as a whole by alleviating the aging pressure and boosting the economy. Therefore, it is critical for recipient countries to have an inclusive and integrated labor market, and provide guarantee to migrants and refugees. At last, he stressed that, given unstoppable trends of trade globalization and integration of labor market, protectionism must be avoided.

Mr. Marcos Poplawski-Ribeiro gave a speech on what's behind the slowdown of global trade. Evidenced by statistics, he claimed that the trade slowdown is widespread across countries. And service trade is more resilient than goods trade; among goods, capital goods slowed down the most. As shown by the empirical models, on a global basis, import growth

is consistently lower than predicted in the post 2012 period, for which the weakness in domestic absorption is mainly to blame. For EMDEs in particular, the slowdown is also a result of an increase in trade costs. Other factors weighing on trade growth include the rise of protectionism and non-tariff barriers. He concluded that slow global trade will likely persist in the medium term as long as global activity and investment remain weak; even when activity gathers momentum, trade is unlikely to return to the growth rates seen before the financial crisis. Policy makers should adopt growth-friendly measures, give more incentive to investment, revitalize free trade, avert protectionism, keep costs under control and facilitate trade integration.

Mr. Lian Weicheng's speech was themed on the global disinflation in an era of constrained monetary policy. He gave an in-depth analysis on the distribution, drivers and risks of this recent decline in inflation. He found that the disinflation is widespread and is across countries, measures, and sectors, with tradable goods' disinflation larger than that in services. Drivers of recent disinflation include sluggish demand, weaker import prices and manufacturing over-capacity in major economies which puts downward pressure on global prices of tradable goods. Persistent disinflation will bring risks to global market. AEs are less sensitive to inflation than EMEs. In countries with constrained monetary policy, the degree of anchoring of inflation expectations has recently weakened, therefore, credibility of monetary policy risks being eroded. He pointed out that since AEs have run out of its monetary tools, the need for fiscal support to growth and demand-side structure reform are more urgent than ever to prevent risks of chronically undershooting targets. Meanwhile, policy makers should adopt a comprehensive and coordinated approach to tackle the problems of weak demand and over capacity across large economies.

The forum is followed by a Q&A session centered on China's labor market, international free trade, exchange rate reform and other issues.



## The 8th China International Asset Management Conference

On November 19, 2016, the 8th China International Asset Management Conference was held in Hangzhou. It was hosted by China Asset Management Research Institute and jointly organized by IMI and China Forex Investment Research Institute. Under the theme of "Monetary Asset Management after RMB's Inclusion in the SDR", the conference studied the opportunities and challenges faced by the asset management industry in the new economic landscape after the RMB joined the SDR basket. The conference promoted the experience exchanges on the RMB asset management and explored the future trend of the industry.

Yang Hongsen, director of the China Asset Management Research Institute, delivered a speech, in which he said that as the RMB internationalization accelerated, the demand for cross-border settlement services grew; and the cross-border real asset management and financial asset management will become a new direction after RMB's inclusion in the SDR. During the conference, Tea Kong, minister of commerce in China from Cambodia, praised the RMB's inclusion in the SDR. He said that its official inclusion marked China's integration into the international monetary system and achieved the RMB internationalization.

Qiu Shengyun, consulate general of the People's Republic of China in New York, former ambassador in Jordan, former vice president at Chinese People's Institute of Foreign Affairs; Song Ke, deputy director of IMI; Tan Yaling, president of China Forex Investment Research Institute; Song Peng, dean of Urban Development Consulting Institute of ICC; and Xu Hongcai, deputy chief economist from China Center for International Economic Exchanges talked about their own opinions and shared views with all guests, winning great reputation and applause from participants.

"This conference will have a far-reaching significance. We can say that with the acceleration of RMB internationalization, asset management capacity should keep pace with it. In that case, we can effectively defuse and prevent systematic risk accompanying with further opening-up." Said Prof. Song.

## Head of CLS Asia Visits IMI

On November 28, representatives of Continuous Linked Settlement (CLS) Asia visited IMI including Racheal Hoey, head of Asia; Luo Fengyi, director of Regulatory Affairs; and Chen Zhijin, deputy director of Market Development, Hong Kong Office. Assistant director Qu Qiang warmly received CLS on behalf of IMI.

Racheal Hoey talked about CLS's great interest in and its research results on RMB internationalization and the price formation mechanism and the quotation mechanism of offshore and onshore RMB. She thought that China's monetary authorities adopted an open attitude towards digital currency and pointed out that CLS was working on the development, use, and other related issues of digital currency. IMI conducted cutting-edge, systematic researches on market laws of the price formation mechanism of offshore and onshore RMB and emerging fields like digital currency and crypto currency. She said she would like to cooperate with IMI more deeply.

IMI senior researcher Su Zhi, researcher Qu Shuangshi and deputy director of international cooperation Cui Tiantian joined the discussion.

CLS is the world's largest multicurrency cash settlement service provider and is committed to mitigating foreign exchange settlement risk for its global settlement members and clients. CLS provides foreign exchange settlement services in 18 currencies for more than 60 settlement members and many third-party clients. Its settlement members are comprised of the world's largest financial institutions and its third-party clients include banks, fund companies, non-bank financial institutions, and transnational corporations. CLS aims to enhance financial stability by providing risk mitigation and operational services to the global foreign exchange market.



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