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Abstract

There has been recent hype on the rise of the Chinese yuan or Renminbi, since the Chinese membership of the World Trade Organization. After the crises that have been dominating the global financial architecture since 2008, whenever there is a funding shortage anywhere around the world, Chinese cash injection or financial aid seems like an alternative. From Greece to Iceland to Argentina, many countries expect further investment from China. A similar trend surrounds so-called Belt countries around ancient and modern silk roads from maritime to desert lines. This paper argues that there are three reasons for this unique phenomenon. First, China is an emerging country that managed to develop without an external program assisted by the IMF or the like. This is not a debt, but reserve accumulating growth. Second, China managed this growth without any energy or resource bottleneck. Just the opposite, there is now a massive capacity surplus. Third, China is in a very unique position to export capital even it is still an emerging country. This comes from the advantage of huge reserve accumulation in addition to massive direct or indirect RMB liquidity creation opportunities in the form of credits to capital exporting Chinese companies. In this paper, we argue that such a potential may only be realized through simplification of central banking by respecting what backs a fiat currency and how simple it may be possible to manage Renminbi liquidity transmission without either creating domestic inflation or leading to global liquidity bottlenecks.

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1. Introduction

Opposite to strong misperceptions, central banking is much younger than many assumes, especially compared to the emergence of money, banking or finance. Just over three hundred years since the first central bank emerged in Scandinavia, central banking is primarily a twentieth century phenomenon as more than eighty percent of all central banks known today were established in the last hundred years.

Again contrary to many misassumptions, central banking as a profession only became popular after the collapse of the Bretton-Woods agreement in 1972 when the USD gold-peg arrangement was first de facto and then de jure eliminated, and ever since central banks' ability to fight inflation has become more critical because we entered the era of fiat monies without gold backing, as opposite to the period of Bretton Woods system. In this connection 1980s might be considered as the beginning of an era whereas the focus on the ability and capacity of central banking has increased.

Current literature on central banking may be blamed as not paying enough attention to the recent fiat-money-based global financial architecture. None of the major currencies of the world from American dollar (USD) or Euro to British Pound Sterlings (GBP), Japanese Yen (JPY) and Chinese Renminbi (RMB) is backed with gold or silver. We are all enjoying the benefits of `just printing money with purchasing power` without any boundaries and without any structural risks including inflation because of an excessive supply capacity that we have never witnessed since the industrial revolution.

This is absolutely new to many economic historians. In order to understand their decry, we do not need to go back to the famous German hyperinflation where cigarette was serving Germans better than so-called paper money of that period of 1930s. The lessons of destructive price increases, which led to the collapse of financial system and simple transmission mechanism, might be observed live even in our recent times. There are some countries in Africa with more than five currencies trying to serve as money, with at least one of them coming in banknotes of quadrillions. In Latin America, some countries have already stopped trying to have a stable national currency and instead have simply dollarized their whole financial system. In Asia, we have observed similar "dollarization" as USD and other hard currencies are used alongside national currencies. All of these examples remind us once again that the real cost of having un-reliable money is much higher than many have assumed. Unsustainable central banking, with too much printed money, would destroy welfare enhancement in one way or another. Excessive central banking would lead to the collapse of simple transmission with extremely high cost to the national and international economic activities.

Against this backdrop, central banks seem to have been fighting hard to earn their credibility. Markets can misperceive and exaggerate the capacity and powers of central banking. This may be due to why central banking began in the first place: the need for a liquidity pool to manage so-called systemic collapse of financial transmission and the need to manage the risk of "too big to fail" that arises from, again, the systemic nature of money and finance, which is sometimes called herd instinct. This is what we call liquidity management under modern central banking principles with fiat money. In contrast, under the gold or silver or parallel or double commodity standard capacity comes with the so called `Lombard Consensus` where you first have the gold or silver in the vault and second you make the gold and silver `visible` to manage herd behavior so that the risk of bank run disappears.

There is almost a consensus on two successes of central banking. The first is so-called Volcker style central banking, where you increase interest rates to double digits if the economy is producing close to maximum capacity and consumers should delay their current consumption for the sake of future welfare. That strategy seemed to have worked perfectly, having cemented the global dominance of USD and prevented the collapse of world trade that might have led to a massive loss of welfare globally. The second success story may be called as Deutsche mark (DEM) miracle, which ended with the creation of Euro (EUR). Though the Euro may be looking fragile at the moment, in the long run Europe will have to be united, started with a single currency, followed by unification including single banking system, single pension system, single social security system, single food security system etc. The third, more controversial, success is the rise of JPY even thought it didn`t reach its capacity as an international currency. So, why we single out JPY as the third example? This is because JPY experiences can serve lessons for fiat money. While we do not expect to see much discussions on this tomorrow, we believe that in the next decades many academics will start talking more about what happened in Japan in terms of central banking during Japan’s now famous `lost two decades`. As we will discuss in the later sections, *nationalization of yield curve* will most likely be discussed around Japanese handling of central banking issues. The fourth and last example may be RMB. Chinese central banking will be under heightened scrutiny progressively not because of the phenomenal growth over more than three decades. Scholars will find many good reasons to spend more time on this front because, barring a tragic mistake in the following one or two decades, RMB will be a truly global currency, and it will be considered more significant given it is a currency of an emerging country and there is no such precedent in the history of money, banking and finance.

China can and should utilize this chance by simplifying central banking as opposed many other cases. As a phenomenon of the last century, sustainable fiat money central banking has been characterized with many so-called `black boxes`. It should be as simple as possible and it should be based on basic principles of money, banking and finance. The rest of this article will proceed as follows: Next section will answer the question of what backs RMB? Then, we will investigate the nature of financial stability& sustainability of Chinese economy under the principles of systemic contagion risks with any emergence of “too big to fail” issues. The following part will focus on the simplification of central banking in China including the liquidity management strategies under convertibility and ever deepening financial markets and products. Final section will conclude with internationalized currency management strategies.

2. What backs rmb: past, recent and future

As we have already mentioned, there is no gold or silver backing for so called G20 currencies. All of them are fiat, which means they are extremely simple prints on `special` papers. Since the invention of paper money, we had been following this rule: Your money should not be easily forgeable and fake money should not be in the circulation to compete with the real one. It has always been a serious crime to print unofficial money. Without gold and silver backing, money is just a form of paper, special paper.

This is clear and understandable but we have one question in mind: What backs fiat money, if not gold or silver? Against all black boxes that have been imposed on the design of monetary policy, actually there is an answer to this question and it is not extremely complicated: Backing of a fiat money is anything that is backing the sustainability of a social harmony and well-being. As we learned from Adam Smith, the source of social sustainability is not that complicated: division of labor and the formation of prices will be left to the invisible hand. David Ricardo made a simple addition to that: Specialize on your comparative advantage and trade. Even after so many centuries, these two approaches provide all the answers for the backing of a fiat money as well. Let`s make the point simpler: Under fiat money, division of labor should be progressive based on research and development that leads to innovation. Innovation either leads to new goods or services or leads to more productive processes. Both provide more profit. But profit is not only enough for strong backing. Once profit leads to higher and more sustainable tax earnings for the central management who has also got the central banking power, then management of money becomes non inflationary and growth friendly. Why? Because central government is the biggest economic unit in any given economy of a single central banking zone. In general, under liberal economic principles, this central so called government does not have `economic activity` especially under the production side. It relies basically on tax earnings. But, taxes should be coming from profits so that future capital structure of real sector should not weaken. Profits should be taken without any harm done to the taxpayers' future health to make future innovations more attractive. We should remember the famous Magna Carta rules in this front as many believes that it was one of the main reasons for industrial revolution to emerge in the United Kingdom.

From this perspective, gold or silver is not needed to back a currency. It is generally possible to design a currency without much reliance on `once and for all` capital accumulation such as land sales in China or commodity currencies such as countries with excessive sovereign wealth funds coming from one or more commodity trade. Sustainable economic activity based on innovation to generate sustainable profits to be taxed comfortably to finance central services such as security, health and education may be enough to design and manage a currency that will go international gradually as strong backing creates international demand as well.

Before getting too far, we should flash forward and remember that when China opened up around the end of 1970s, at least one decision maker was aware of the real backing of China and Chinese currency at that time: Massive size of labor source. Hundreds of millions has been mobilized to fight against hunger and poverty of the times. Foreign direct investment did not miss the opportunity and billions started to get in to create jobs for millions. Simple realization of this mega-sized labor power leads to the creation of a miraculous growth performance without any hyperinflation. By the way, it may be worth mentioning one simple fact here. China has created labor mobility beyond basic imagination. There is no country that has designed such labor flexibility as hundreds of millions went on the run to find better jobs all around the country. Even as of today, the so-called migrant workers represent a high percentage of labor in China supporting production assemblies all around the country. This is the most mobile labor force that has ever been created or designed since the industrial revolution under a single economic zone. On the road to such an ultra super mega labor mobility, China exhibited many unique decisions such as extensive public servant firings and profitable management of public sector enterprises including many restructurings. Many other emerging countries failed to create a central government that can manage to stay away from populist policies that has been proved destructive in the long run even if it looks like sustainable in the short run.

If excessive labor force was the backing power of RMB in the early stages, what is the backing now? The answer for these questions is anything that helps to strengthen the stance of the economy. We may recall some of them as still lacking populism, excessive reserve accumulation of hard currencies, extremely strong potential growth rate of no lower than five percent to attract massive investment interest from abroad, unprecedented size of scale of all markets from foods to machinery to health products and incomplete urbanization with potential productivity gains. In short, anything that comes from innovation either in the form of new goods and services or from additional value added to processes is the backing of RMB at this stage as it helps sustainable fiscal position of China that may either be used to increase potential growth rate for the future or just be saved as ammunition against the challenges of the future. Both strategies helped keep China strong and make RMB a strong currency even if it is a currency of an emerging economy with fiat standards.

The hard part of this analysis will be to put the argument for the future backing of the RMB. It may look complicated in the first instant but actually the framework we have been utilizing here makes it much simpler: Anything that generates sustainable tax payments to the sustainable provision of central goods and services will be the backing of RMB in the future. For example, so-called ‘four comprehensives’ will support the creation of a credible road map for national and global investors. It is similar to European Union Convergence Rules. Once a country dedicates to the convergence, the risk premium of the country will decrease automatically if convergence rules are still credible. Same will work for China: Once a credible roadmap is shared with the markets, name it as principles or central planning strategies, risk premium will diminish immediately through expectation channels.

More than that, there is another strong backing for RMB in the future: It is the mega size of markets of anything and everything that comes with a massive size of scale and extremely big logistic activities to produce, to distribute and to consume. Once China optimizes economic activity in the country, export of the goods, capital and services become a source of RMB backing as well. We can recently observe this capacity with the creation of One Belt One Road initiatives in addition to Asian Infrastructure Investment Banks. These are the leading examples but surely more to follow. It is our expectation that in the future, China will be looking for opportunities to securitize infrastructural investment and will be ready to create boutique investment banks for all projects either one by one or within a basket. No other emerging country has ever had such an opportunity before. We may stamp this as engineering capacity of Chinese economy with the help of economies of scale. We should remember that China is a single currency economy with a single market. Anything and everything is produced, distributed and consumed and in the near future China will be the biggest market for all the known goods and services from energy to education from bread and butter to cosmetics, from standard to luxury goods and services. As times passes by, China will be imposing global standards including monetary rules. At this stage we may argue that the strength of the backing of RMB will peak. How long does it take to climb there? It depends on the road accidents that we call structural reforms. Stronger and more and more rational reforms coming with optimal restructuring and recapitalization will shorten the way whereas mistakes that may generate lower growth with more price level fluctuations will lengthen the way. Only time will tell us whether best backing will ever go to the RMB but it is definitely one of the candidate currencies among G20 for such success.

3. Systemic risk in China: contagion and too big to fail

Money in the form of coins have been invented by Lydian's in so-called Minor Asia which is actually Turkey now and money in the form of paper was invented in China. Symbolically, old cultures of both regions may be assumed as masters of money management. But, cycles come and go. Recently, neither region has got the best expertise on money issues. Encouragingly we see the light in the end of the tunnel. First of all, China never gave up money in economic activity compared to Russian experiment with extreme central planning with no role for money and tokens or assignment letters or coupons playing the role of delivery settlement. Also, after the opening up, money-based economic activity became the dominant form of governance for China. During the 1980s, mono bank based banking model was left in favor of dual financial structure based on fractional reserves. This simply means central bank issues money and manages it under the auspices of commercial and investment banks that collect deposits and chooses optimal credit allocation.

Surely, marketization and financial deepening is not complete in China yet. And, there is a problem of too big to fail. Why? With a simple reason: Chinese banking system has not experienced consolidation. It did not develop from small institutions swallowing each other to create gigantic financial service providers. Chinese banks have been too big to fail from the start. They have been designed as big and that was intentional. One may either see good or bad side of this structure. On the good side, there is a massive human resource capacity to manage these banks without chronic failures to ask for more and more tax-payers money for recapitalization. Secondly, yes the management knows from the beginning that too big to fail banks can`t be allowed to go bust because of the systemic nature of their activity. The rest is the optimal management of the so-called moral hazard issues and progress has been made on this front step by step, especially with the fight against corruption. Bad side of the story is crystal clear to many: Fiscal backing is desperately important for the financial stability during the systemic volatility so it is important to fill the tanks during the rainy days. It has been done up until now as Chinese economy managed any risk of bank runs. Unlike other emerging countries, there has been no extensive cost of financial sector restructuring. In some cases this cost went beyond ten percent of GDP during Latin American crises.

Can this be the guarantee for the future stability of Chinese financial system? Maybe not. From the start, Chinese banks have been too big to fail and until the end, they must be managed, supervised and structured accordingly. A fiscal gap should be in the calculations for the future bottlenecks endangering financial stability. This may best be guaranteed as these banks are placed under continuous stress tests regularly and periodically. There has been enormous development on this front not only in China but among global financial institutions as well. China should learn from others' mistake and permanently keep studying the cost of financial crises and develop skills to both prevent the crises including risk management and crises resolution techniques. This will only lower the cost of systemic contagion in China be it national or international contagion. Under capital controls, recent times might be easy going in this front but after convertibility, the financial environment with futures and options markets will complicate things to unprecedented levels. Preparations can only help to minimize the cost to be transferred to the future generations.

4. Designing monetary policy operational framework: yield curve and beyond

As we discussed in the backing of a currency section, we have already mentioned that Chinese economy has been going over an unprecedented phase that has been supporting an ideal macroeconomic environment to design, develop and operate or manage a strong and reliable global currency with strong backing. This might be a clear breakthrough in the global financial infrastructure that has been dominating the worldwide landscape since the collapse of Bretton-Woods agreement. However, there is a prerequisite: An effective and efficient central banking framework that has got enough instrument independence supported by a rational goal that comes from executive and legislative powers. Central banking that is independent of politicians are much searched in the west but after the current experience both in Europe and the US, one may easily agree that without the decisions of Congresses in both sides of the Atlantic or without the direct involvement of politicians in many critical monetary decisions around Atlantic, it might have been almost impossible to take many decisions that has been placed to prevent financial collapses in the last seven years.

China is lucky in this perspective because the People`s Bank of China is actually part of the Cabinet and has got permanent touch with all Cabinet members. When we go over the close cooperation between the Treasury Secretary and Fed Governor during the 2008 global financial crises management, we may argue that direct membership in the Cabinet may not be rejected as strongly as before. China can benefit from this institutional structure in the future when the tough times come in order to make fast decisions on the sake of the management of the RMB liquidity in the national and global markets.

In a two-tier fractional reserve structure model, central banking has got two critical assignments. The first one is the proper functioning of payment and settlement systems. China has been progressing very rapidly in this front. China National Advanced Payment System has already been developed and just recently China International Payment System has been launched also to support RMB internationalization. Before banking cards has been matured, internet based retail payment systems infrastructures are developing extremely fast. On one hand, national real time gross settlement infrastructure have been developing rapidly with ever easing custody mechanisms and on the second hand, internet companies such as Alipay and Tencent have been developing amazingly cheap and nationwide retail payment systems and modules. Surely, single currency structure of Chinese economy has been helping these initiatives massively by allowing those companies to benefit a lot from massive size of Chinese market. Return on investment in those areas seems quite high even when compared to global standards.

Second critical assignment is the management of liquidity. This part is a little bit more complicated than the first part because it covers all the aspects of central banking as an art. First of all, operational liquidity management needs deep markets. When there are no deep markets in the spot and future markets, surely there is a mission for the central bank to come out and design and develop those markets. At the end of the day, Chinese opening up was a state policy in China and so can be the development of markets by all aspects. We may call this as *do-it-yourself marketization*. Only PBoC can fulfill this gap because only PBoC has got the power and instruments to function as the lender of last resort to either provide liquidity to the markets or to drain liquidity from the market as the lender of last depositor. It is a two way or double sided market mechanism anyway. Without such a framework, second tier banks will face sudden or unexpected liquidity attacks that can create systemic danger as many Chinese banks are systemically important.

There is one more, small secret of any strong national or international currency. Every efficient and effective currency has got a yield curve for the so-called risk free assets first and then all the securities should have their own yield structure. Yield curve has got a critical role in a well-managed market economy. It creates liquidity for the exchange of purchasing power from one time to another or from one duration to another. It is the ultimate indicator of sustainable economic structure. An economy with a yield curve of only one year maturity is the best sign of macro issues such as dollarization and so called original sin issue. China has got none of them at the moment. However, there might be a risk that monetary policy incompetence or mismanagement may surely bring those destructive issues to China as well. We should remember that especially original sin is a very common problem for many Latin American and Asian or African countries.

Against this backdrop, one may easily argue that there are so much to do with designing, developing and operating a Chinese Government Bond market that will provide an efficient yield curve to help find out the optimal interest rates from one year to thirty or fifty years. In order to support the development of an efficient yield curve, PBoC can and should help the government by all means including designing benchmarking for certain maturities for one, five, ten and thirty years. PBoC liquidity facilities should be assigned to the financial institutions to act as primary dealers. They should be willing to help provide certain benchmark CGBs either to create liquidity or to quote buy and sell rates permanently in order to boost market liquidity. Once benchmarking and market makers mechanism coincides side by side, liquidity will be plenty and all the investors from individual to corporate side and from national to international will be able to buy and sell instantly whenever they need to convert one duration with another. Yield curve will be the most critical price formation for any given economy and China needs to develop one sooner rather than later by using public or central bank resources when deemed necessary.

There is one more advantage for the PBoC: the yield curves of the risk free assets in the major global currencies, be it JPY or USD or EUR are all under government interference recently. Ben Bernanke argued that quantitative easing cycles was necessary to manage the 2008 global financial crises and approved intervention to yields through central bank balance sheet expansion. On the other hand, John Taylor criticizes this as the biggest intervention to the invisible hand basics of liberal economic structure in the modern US financial history. He may not be wrong to argue that once yield curve derives prices that are imposed by government intervention, then all the relative prices will be suboptimal accordingly. His criticism is much clearer in Japan where there is a unique phenomenon that we call it as the *nationalization of the yield curve*. This is the moment where majority of the risk free assets on the yield curve has been bought by the central banks. As a result, interest rates that has been derived from that yield curve is not a price that is determined by free market forces but it is a price that the government believes fits best to the best interest of the economic units, be it government, corporates or individuals. Consequently, government involvement of communal monetary policy practices is acceptable from all folks of global life now. PBoC may turn this trend into his advantage and relaxingly intervene to shape an `optimal` structure for CGBs yield curve. In order to do that; instruments such as blind brokerage in the money markets to eliminate liquidity asymmetries may be utilized easily. More than that; a corridor mechanism is already under construction with the elimination of interest rate floors and ceilings and by the creation of repos, reverse repos and other similar liquidity facilities. PBoC has been constantly enriching its operational tool kit and progressing with new instruments as to diversify ammunition to optimize operational framework. There is no ending to this in the near future because of the lack of full liberalization of the financial markets and because of the lack of convertibility. PBoC needs to keep working hard to get prepared to the market volatility and should be developing crises prevention and resolution skills. It is almost inevitable to avoid crises in the long run. PBoC will definitely face national and international challenges. Because of the banking structure in China with gigantic banks, surely the central bank has to work much harder than other central banks. More than that, international competition should be increased. It is common knowledge that when forex market intervention comes jointly by G7 central banks, it is more efficient than individual interventions. PBoC already signed so many swap agreements with other central banks. More swap lines should be built up and more creative alternative or complimentary tool should be constantly investigated.

Creative central banking has been crossing over many boundaries that we assumed as China Wall before. Just to provide one example, it was deemed inappropriate for central banks to operate with maturities longer than three months or maximum one year short term money markets. As Bernanke defends for the legitimacy of quantitative easing and managing to reverse those operations, central banks may even buy thirty year government bonds now. It is surely beyond conventional wisdom. More than that reaching capital markets is taken as legitimate recently even if it is through exchange traded funds. Consequently, PBoC may *manage the change* much comfortably now compared to a decade ago. Most of the interventionist policies turned out to be common practices for all the central banks and it is quite difficult to put any blame on any central bank to prefer illegitimate practices. So, the sky is the limit for the PBoC to develop tools and instruments that will help bring the welfare state position for China in the following decades. RMB has a chance to be a true global currency with strong currency to support global demand. However, RMB needs a very high caliber of central banking competence to manage good and “not so good” days and months with effective and efficient central banking skills supported by global coordination tools. Stakes are high and PBoC has no other option than to win this battle if serving the Nation is the first priority. The Bank will be judged in the following decades whether they deliver the optimal outcome or they make mistakes that brought second best equilibrium for the Chinese Economy. PBoC`s future credibility will be shaping around this judgment.

5. Managing international RMB: understanding money supply and demand

Without a credible central bank, RMB internationalization will face serious bottlenecks all around in the future. If the PBoC can *manage the change* optimally, RMB will be a credible international currency sooner than expected. But if we see many road accidents in terms of uncontrollable volatility in Chinese money and capital markets, then internationalization will be a costly adventure. We will not touch upon the potential failure of the PBoC when the management of RMB becomes second best beyond optimal equilibrium. Such an analysis has got many examples in Latin America or in emerging countries that has experienced high and volatile inflation with extreme foreign exchange rate volatility. Dropping zeros and renaming the national currency are among some of the terrible examples of inefficient central banking.

We will investigate a positive attitude in this part to brainstorm on how RMB internationalization may proceed with optimal central banking by the PBoC. First of all, because of the strong hard currency reserve level of almost forty percent of the GNP, any risk of forex rate volatility is not imminent in China. Against all odds, foreign exchange rate pass-through is not and probably will not be in the radar of PBoC watchers, China macro strategists, academicians and practitioners such as supervisors and regulators. This is such a good sign to celebrate indeed. No energy needs to be vested to estimate implications of multiple currency structure under free markets with full convertibility. All the energy may be assigned to design a national currency without any systemic foreign exchange rate risk. This has also got a macroeconomic insight: China can finance its own economic restructuring independently without any need from international financial institutions such as IMF. There have been some emerging countries around the world that has never come out of addictive stand-by agreements for a couple of decades. As Chinese growth has been funded by reserve accumulating strategies instead of debt accumulating tactics, now it is time to enjoy independence from external resources on the conduct of monetary management. By the way, this is a great contribution to the global financial stability as well. As China's economy is second biggest now, it might be extremely difficult for the IMF or other international financial institutions to come up with a "stability program" for China in case there comes a sovereign debt issue in Chinese markets. From this perspective, we may argue that China will be alone to design crises management and resolution infrastructure other than a certain level of international cooperation among G20. The societal responsibility of the PBoC from this window looks extremely unprecedented as well.

As the potential growth rate of China is still comparatively much higher than G20 averages, foreign direct investment is still not near to the peak at all. As the factory of the World, China has been proving as massive opportunities to all global companies to capture some slices from the profit capacities. Consequently, China is the biggest exporter of the world, biggest trader of the world and close to be the biggest importer of the world. Surely, it is not surprising that RMB pricing of export and import is explosive in the last four years crossing over almost to a quarter of all trade. RMB is surely becoming de facto international from this perspective and this is helping to reduce forex rate risk for the economy and help further the PBoC to stay independent from any run on RMB from external fragilities.

More than that, RMB sovereign credits are becoming more visible to help ease global financial turbulences. It is not a surprise to see Beijing receiving many visitors from economies facing sovereign issues as a potential funding source. It was only Washington as either for the IMF or for the Fed in cases such as Brady Bonds to ask for help to receive funding to manage stability programs. Surely, Brussel and Frankfurt played a critical role during Eurozone restructuring and Tokyo has been a traditional source of funding for many decades now. But, they are all developed economies. As a developing economy, China has managed to become a source of funding against all odds. We should underline that Chinese help came from the hard currency reserves until now. It is our argument that once RMB becomes a source of funding for sovereign help, then the potential will surely be explosive.

The same potential holds for direct RMB credits for infrastructure investment. This mechanism is actually quite simple. China has got a massive capacity surplus in basic infrastructural investment goods and services and ready to export that capacity. Contemporaneously, the world has got a massive demand for this sort of investment. Asian Development Bank gives the figure more than USD 8 trillion in a decade.

Consequently, this is an ideal combination of supply and demand. Just one reminder to keep expectations under control in this front: Unfortunately, we are not living in an ideal world and some of the infrastructural demand fails to come out with a feasible investment plan. There is need to be selective and cautions are advised not to be over excited to jump on government to government credits to cross over the market mechanisms. As we argued in the beginning, invisible hand is historically a well-proven welfare enhancer and markets can evaluate the feasibility of a project much more efficiently than the governments. I am sure corporate China will work hard to help China to do business in private hands around the world. Corporate China can do business in infrastructure development but also to contribute to global health and social security solutions. Surely, they may help individual countries to design development project not only limited to textile industry but to space technologies as well.

However, the role of government in this area is much more than nil or zero: Chinese style “Marshall aid” should be the peak on this progress. China needs that sort of initiatives to be a truly global soft power. RMB help, aid and payless credits to disadvantaged parts of the world will be a sovereign social responsibility for China as soon as now or no later than the country becomes a middle-income country.

6. Conclusions and recommendations

China has been going through an unprecedented economic growth story since 1978. Half a billion citizens have been brought out of hunger first and poverty after. This is a unique story in terms of global comparisons because we never witnessed such a societal welfare creation in such a short period of time providing masses with so many new goods to consume and services to enjoy including the biggest rapid train services that has ever been created in the human history in around ten years.

This economic miracle has been good for Chinese people in particular but it has been good news for the whole world in general. After all, China has got the biggest populationsize. This will bring massive economies of scale for all goods and services, empowering productivity. Against the experience of other emerging economies, China never had any systemic energy bottleneck to distort production, distribution and consumption. China has already benefited most from the globalization trends but after the World Trade Organization membership, it became an ultimate part of global supply chains by cementing China’s role in global logistics. This made sure Chinese globalization irreversible. Surely, China now has got an overcapacity that might be channeled to global welfare enhancement.

Now, it is time to bring this welfare capacity to further boundaries: If PBoC can take the challenge, there is an opportunity to insert and inject much needed resources not inside China but also to anywhere with a need for funding either for economic restructuring, or stability programs or to jump start growth through infrastructural investment. In order to fulfill this societal responsibility, PBoC should design, develop and operate an effective and efficient monetary policy to manage RMB as an international currency. The best way of doing this should be keeping central banking in the simplest form especially during the early stages. Complicated or complex strategies or tactics will put much burden on PBoC watchers to understand what really is going on. Such a risk will shape expectations in the second best equilibrium level beyond optimal balance. Can the PBoC take this challenge? Only time can tell but we take a side on the positive attitude.

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