



al financial markets. In contrast with this situation, China has quickly emerged from the financial crisis and maintained strong economic growth, establishing a good international image, thereby increasing market confidence in Renminbi, and providing a rare opportunity for the internationalization of Renminbi.

At present, the internationalization of Renminbi has a good start, China has signed currency swap agreements with 16 emerging market countries, and Renminbi is also widely used in the trade settlement and daily pay in neighboring countries. However, we must clearly recognize that there are still shortcomings and deficiencies in the process of the internationalization of Renminbi, which can be concluded as the following aspects: First, imbalances in the model of economic development and economic structure; second, vulnerability of the domestic financial system; and third, severe external economic environment.

6.1 Imbalances in the model of economic development and economic structure

The first challenge, the most fundamental challenge, is the imbalance of China's current economic development model and economic structure. Since the implementation of economic reforms, Chinese economy has maintained rapid growth over the past 30 years. China's GDP reached 47.2 trillion yuan in 2011, accounting for more than 9% of the global GDP, and becoming the world's second largest economy. If the existing rate of economic growth is maintained, becoming the world's largest economies is merely a matter of time. The importance of China in the world economy and international trade is unquestionable. Although the Chinese economy has maintained a rapid growth, its stage and quality of development are significantly behind the developed countries. China is not only in the transition from the dual economy to the economy of industrialization and modernization, but also in the transition from planned economy to market economy. In this "double transition" period, China is facing a great challenge of economic development mode. Development of the real economy and economic strength directly affects the economic base of the internationalization of Renminbi. In the current and in the next few decades, the following problems faced by the development of China's real economy will directly determine the process of internationalization of Renminbi.



6. 1. 1 China is a country with large trading scale rather than a powerful trade nation

In the contemporary China, “open” side by side with the “reform” are basic economic strategies, and the introduction of foreign capital as well as the use of comparative advantage to promote foreign trade has a vital role in the success of China’s economic development. Although, in terms of scale, China’s foreign trade has great achievements, it is still in a weak position concerning international trade and product pricing. On the one hand, China’s export products mostly depend on cheap labor and policy support, featuring as export processing type with low value added to products, and placing at the bottom of the global production chain; however, the core products and technologies are in the hand of foreign countries, posing a threat to the independence of operation in China’s export industries. On the other hand, the product is over dependent on foreign demand, severely exposing China’s economy to the world market risk.

China’s actual use of foreign investment in 2011 amounted to 116 billion U. S. dollars. The scale of foreign controlled manufacturing industries has reached a significantly high level. Shares held by foreign capital in the five largest enterprises in the elevator industry, the color picture tube industry, 15 major enterprises in the cleaning supplies industry, 13 major enterprises in the pharmaceutical industry, and household appliances industry, is 100%, 93.3%, 86.7%, 92.3% and 75% respectively. Foreign capital enterprises, with its dominance in the market, are likely to increase our market concentration degree. If the Chinese market is monopolized by foreign capital enterprises, they could control our economy, and increase China’s dependence on foreign economic, which will bring a significant threat to China’s economic development. Foreign enterprises may hinder the new enterprises to enter, because, generally, foreign capital enterprise has technical, financial and management advantages, when its product accounts for a certain share of sales in our market, it has monopolistic tendencies. In order to maintain this monopoly advantage, foreign capital enterprises are bound to set a variety of obstacles to prevent the entry of new firms and hinder the growth of Chinese enterprises and their product pricing power.

In respect of foreign trade, from 1980 to 2008, China’s dependence on foreign trade increased from 12.5% to 72.13% at the peak. Economic develop-



ment is heavily dependent on international markets, especially the U. S. , EU and Japanese markets. Whereas China is in short of self-produced important energy and raw materials, dependence on imports of crude oil was about 57% in 2011, and dependence on imports of iron ore was 63% in 2010. China's economic development is too dependent on world markets and resources, and is in a weak position in foreign trade in most of the time, becoming the hidden dangers of China's economic development. After the outbreak of the global financial crisis in 2008, China's foreign trade situation worsened, and seriously affected the stable operation of the national economy.

An important symbol of internationalization of Renminbi is that Renminbi is functioning as the pricing and settlement currency in the international trade. However, China's high degree of dependence on external economics, as well as the weak position in international trade, make the pricing power of most of the products is in the hands of western developed countries. If the weak position of our country in international trade cannot be changed, settlement and purchase of the product can only carried out in accordance with western rules and currency, it is impossible to use Renminbi as the settlement currency. If the international use of Renminbi's has been seriously hampered, then the internationalization of Renminbi is out of the question.

6. 1. 2 Economic structure imbalance

Economic growth motivation is uneven, economic growth is over dependent on investment, and consumption growth contribution rate is relatively low are the problems in the Chinese economy. Since the economic reforms in China, the general trend of proportion of final consumption to GDP is downward, 62. 1% in 1978, 59. 6% in 1998, and only 47. 4% in 2010. The capital formation rate rose from 36. 2 percent in 1998 to 48. 6% in 2010. The over dependence of economic growth on investment demand causes energy and raw material demand growing too fast, not only leading to a shortage of energy and raw materials, the rapid increase in imports, and the rising prices in the international market, but also leading to China's worsening terms of trade, economic damage and the rising ecological environment pressure.

Moreover, the excessive investment growth caused excessive growth of production capacity, which needs increased demand to offset. If consumer demand lags behind, in order to keep the economy continuing its rapid growth, larger scale of investment is needed to create new demand, causing a self-vi-



icious cycle in which investment demand is needed to boost itself. For the past several years, rising capital formation rate reflects the fact of maintaining rapid economic growth under the imbalance in the economic structure. However, investment cannot grow infinitely, and thus the economy will eventually face the threat of overproduction. If some external factors encounter adverse changes, China might experience deflation and recession. In addition, the surplus funds of high savings induced by the high investment may flow into the real estate and stock markets. The excessive demand created by these surplus funds led to soaring real estate prices and stock market prices, resulting in the expansion of bubble in the real estate market and stock market. Historical experience shows that the bubble will eventually break for sure. Expansion of the stock market and real estate market bubble posed an extremely high risk to our country's macroeconomic.

Internationalization of Renminbi inevitably requires the stability of its value, and thus it can function to preserve and store the value of Renminbi assets. Imbalance in economic structure has posed an extremely high risk in its economy, increasing the risk of the international market to hold the Renminbi assets. It's never short of expectations looking down on the Chinese economy, and the voices to short Renminbi assets have never stopped. The degree of internationalization of Renminbi and the range of Renminbi held by different countries residents, to a large extent, are dependent on the possibility to change the current imbalance in China's economic development structure. Only the structural imbalance between investment and consumption is reversed, can China's economy overcome its vulnerability, maintain sustained and stable growth, ensure the international appeal of the underlying assets of Renminbi, and be widely accepted by countries in the world.

6. 1. 3 Weak technical innovation

A country's economic progress ultimately reflects in the advancement of production efficiency of labor performance at the core, a process that particularly needs the support of science and technology. However, our capability of independent innovation is weak, and it has seriously hampered the progress of science and technology and the industrial structure upgrading. From 2002 to 2006, the number of Chinese enterprises with R&D activities just accounted for 30. 7%, 29. 9%, 23. 7%, 24. 1% and 24. 0% of all enterprises, within which two-thirds of large and medium-sized enterprises did not have R&D depart-



ments, three-quarters of corporate conducted no R&D activities, and only 10% of industrial enterprises above designated size conducted R&D activities. In respect of level of innovation inputs, from 2002 to 2006, Chinese enterprises' R&D expenditures accounted for 0.83%, 0.75%, 0.71%, 0.76% and 0.76% of the main business income. However, international experience shows that corporate R&D investment should be not less than 3% of sales revenue, or should be even accounted for 10% of the total sales revenue (Gao Fan, 2008). Moreover, China has low self-sufficiency rate in key technologies and dependence on foreign technology in more than 50%. In contrast, developed countries' dependence on foreign key technologies is no more than 30%, and this number for the United States and Japan is only about 5%. Especially in aviation equipment, precision instruments, medical equipment, engineering machinery and other high-tech products of strategic significance, the key technologies of the self-sufficiency rate is even lower, more than 80% of supply is dependent on imports. China Enterprise Confederation organized a survey of top 500 Chinese enterprises technology independent on innovation in 2005, and it showed that most of the top 500 Chinese enterprises have relatively sound independent innovation system, 98.53% of these enterprises have specialized technical centers, but concerning technological innovation, 50.74% of these enterprises technology innovation is based on introducing technology, the original innovation, the most critical aspects of independent innovation, was only conducted by 10.45% of these enterprises. The National Bureau of Statistics survey in 2007 showed that between 2004 and 2006, Chinese industrial enterprises with innovation activities accounted for only 28.8% of all above-scale industrial enterprises (Li Shupei, 2009). Overall speaking, the penetration of innovation activities is still at a low level. Based on such technology, the Chinese economy is behind the sense of fully industrialized and modernized.

From the perspective of international demand, in addition to the aim of increasing value, the main purpose of holding Renminbi is to reap the benefit of buying products from China, enjoying the cheap products. However, due to the lack of technological innovation, China lacks of high-end and high value-added products, and product structure is simple only to attract foreign consumers by labor-intensive, low-priced products. If not, through technological innovation, to change the simple, low value-added products structure, and to increase the diversity of the product, with the rise of China's labor costs and price level, the competitiveness and attractiveness of the Chinese products in international