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**The Offshore Renminbi: The Rise of the Chinese Currency and its Global Future, Robert Minikin and Kelvin Lau; John Wiley & Sons Singapore Pte. Ltd., 2013. Price: US $49.95.**

During the previous two decades, world witnessed considerable increase in China's share in the global merchandise trade and global output. It maintained a huge surplus in its current account on sustained basis, while during the same period some advanced economies, in particular, the US, maintained higher deficit. This led to consistent pressures on China from global stakeholders to increase flexibility in its currency management regime and sharing the burden of adjustment of the global financial imbalances. In addition, there was consistent demand from global investors community for access to more and more Chinese currency denominated assets. Along with above two, a geo-political debate for a multi-polar world order is going on, where China is expected to play a more proactive role, particularly among the emerging market and developing economies.

Amidst above background, in order to reform its currency regime without losing control in the domestic market, the Chinese authorities took initiatives to internationalise Chinese currency in a controlled manner. In a unique experiment in purely Chinese style, they allowed free deliverability of renminbi in the offshore market, while maintaining policy determined exchange rate regime in the onshore market. Due to its 'one country two systems' administrative structure, Hong Kong emerged as a natural hub for the global trading and clearing of the offshore renminbi. Here, it may be noted that at present, Hong Kong operates as a special administrative region of the People's Republic of China and enjoys a high degree of autonomy in all matters except for external affairs and defense. Chinese and Hong Kong Special Administrative Region authorities exploited this unique dual status of Hong Kong for internationalisation of the Chinese renminbi.

In order to support internationalisation of Chinese currency, authorities encouraged invoicing of international trade in renminbi. As China has imposed strict curbs on capital account of balance of payments, for development and maintaining of adequate liquidity in the offshore renminbi market, the People's Bank of China (PBC) has sought to promote RMB trade settlement by signing bilateral local currency swap agreements with 19 Central Banks – including the Bank of China, Hong Kong (BOCHK) – with a key objective to provide market participants confidence that liquidity in the offshore RMB market will be sufficient to meet RMB denominated payment obligations. Activation of these agreements resulted in the PBC depositing RMB into the foreign central bank's account at the PBC in exchange for the foreign central bank depositing their local currency into the PBC's account at the foreign central bank. The BOCHK provides clearing service between the onshore and offshore markets. It is permitted to undertake cross-border transactions subject to specified controls and functions as a clearing bank for offshore renminbi.

Chinese authorities permitted Hong Kong based commercial banks to accept deposits and lend advances denominated in renminbi. They also permitted floatation of the offshore renminbi denominated bonds. In addition to Hong Kong, subsequently the Chinese authorities signed memorandum of understanding with financial authorities in London and New York for issuance of renminbi denominated bonds. Since the exchange rate of onshore renminbi is policy determined and that of the offshore renminbi is determined purely by the market forces, differences in offshore and onshore exchange rates arose, which led to assigning of CNH symbol to the offshore renminbi. Assigning a new symbol RMB-CNH for offshore renminbi, symbolises an important step towards internationalisation of Chinese official currency.

A recent book titled as "**The Offshore Renminbi: The Rise of Chinese Currency and Its Global Future**" written by Robert Minikin and Kelvin Lau, dissects various facets of the offshore renminbi such as its micro-structure, policy rationale, global linkage, impact on the onshore renminbi and future consequences for Hong Kong and its financial markets, *etc.* in a lucid manner. At the broader level, this book has attempted to answer some important questions such as (i) how the offshore renminbi is different than other currencies or why we never discuss about offshore US dollar?, (ii) what are the developments related to international use of the offshore renminbi so far and its future prospects?, (iii) what are the investment and hedging opportunities in the new market created by renminbi internationalisation project? and finally last but not the least it examines (iv) what would be the consequences of internationalisation of renminbi and opening of Chinese onshore financial system for the financial system of Hong Kong? Under above broader framework, the book is divided in seven chapters. The first Chapter, the New Global Role of Chinese Renminbi sets the background and context of the book.

According to the authors, the Chinese authorities who hitherto were taking baby-steps for internationalisation of renminbi took a 'Big Bang' decision in that direction in July 2010, by launching sale of the offshore renminbi (i.e., RMB-CNH) denominated Chinese government bonds in Hong Kong. Rationale for the launch of the offshore renminbi was two-fold - economic and geo political. A more flexible currency can play some role in shielding China from imported inflation. On political front, the increasing share of Chinese economy in global output demands that China should take a more active role in global economic affairs.

In Chapter 2 titled 'Linking the Offshore and Onshore Renminbi Markets', the authors address policy and theoretical issues related to the subject. They argue that in order to internationalise the renminbi, China has to move towards full capital account convertibility, even if it moves gradually and takes longer time. Authors have claimed that in order to transform the renminbi from a purely national currency to a fully global currency, Chinese banks and financial markets need to become fully engaged in the global financial system just as Chinese exporters / importers have become integrated in the global trading system. The pole position, which the US dollar has attained in present global financial system, is due to a host of factors including the US's willingness to deregulate its financial markets and allow high degree of integration with global markets. Hence, unrestricted deliverability of renminbi becomes a necessary condition for its internationalisation.

Authors point out that for deliverability of the renminbi, it is global interbank transactions which are important. According to Bank of International Settlements' survey of global forex market, China's share in the global banking assets and liabilities is less than two per cent. This share is marginal in comparison with China's role in the global trade which has expanded multifold over the years. Authors say that if the US is taken as a benchmark then Chinese share in global banking assets and liabilities has to increase by around eleven times from its present levels, and even if it has to reflect China's share in the global trade then its share has to increase by about six times. Hence, authors foresee a considerable scope for scaling up of renminbi investability.

The book argues that there is a huge difference between full renminbi convertibility and investability. The essence of full capital account convertibility is losing control while investability calls for scaling up of portfolio flows between China and overseas. According to authors, scaling up of portfolio flows can be done in very controlled manner. Offshore renminbi is one such controlled experiment. It enables Chinese authorities to push forward the internationalisation of renminbi while maintaining a close control in the onshore market.

In the next chapter, 'the Birth and Evolution of the Offshore Renminbi Market in Hong Kong' the authors have outlined the micro-structure of offshore renminbi in chronological order. The 'RMB trade settlement scheme' is the main channel through which RMB has been able to flow between the Mainland China and the offshore RMB market. The renminbi trade settlement scheme facilitates offshore renminbi in three distinct ways, namely, a) by bringing overseas corporations and financial institutions on board riding on China's extensive trade linkages, b) generating offshore renminbi liquidity and c) spurring the demand for complementary financial instruments and markets for offshore renminbi.

Although the trade settlement scheme is quite complex in design and still opaque in functioning, it has witnessed various expansions, fine tunings and iterations since its launch. Initially, under this scheme, cross border trade of Shanghai and four cities of Guangdong province with Hong Kong, Macau and ASEAN were covered. Subsequently, geographical coverage of scheme was increased to entire mainland and enterprise restrictions were removed. Presently, money can enter to and exit from China as long as it is backed by genuine trade documents.

Evolution of offshore renminbi has led to emergence of a very complex financial engineering. It has witnessed development of many new instruments and entities, such as agent banks (onshore entities to facilitate renminbi trade settlement) and non-resident account (a new onshore financial account), *etc.* Similarly, trading in derivatives has also witnessed evolution of a plethora of products. Corporate bonds, denominated in offshore renminbi are known as 'dim sum' bonds, have been issued in Hong Kong and other global financial centres. The characteristics and liquidity aspect of these instruments are discussed in the Chapter 4, 'New Markets – Jargon, New Opportunities'. It is argued that as long as China does not go for capital account convertibility, the divergence between onshore and offshore renminbi rate will continue to exist. Nevertheless, freedom to deliver the renminbi in Hong Kong without trade documentation has led to emergence of new currency derivative products. Recent studies have pointed out that corporates have increased uses of derivative products denominated in offshore renminbi and reduced their exposure to products denominated in non-deliverable forwards (NDFs) of renminbi.

Global financial centres such as London and New York are making special efforts to promote development of 'dim sum' bonds. In chapter 5, the authors discuss the growing presence of offshore renminbi beyond Hong Kong. The authors look into some of the channels which enabled the offshore renmibi market to grow in size and build scalability geographically. It is argued that Hong Kong has played a major role in internationalising the Chinese renminbi. It has played the role of a gatekeeper by controlling and monitoring cross-border flows of renminbi from China. In fact, as part of efforts towards promoting offshore renminbi market, the HKMA and the UK Treasury announced a joint initiative to focus on development of clearing and settlement system, improving CNH liquidity in overseas markets and developing CNH products. Presence of global financial institutions in London has helped it to amass renminbi denominated deposits.

Chapter 6, ‘Drivers for Internationalisation’ has given micro details of globalisation of renminbi. Authors point out that role of Chinese renminbi as international reserve currency is disproportionately low. However, the history of reserve currencies tells that change in global reserve currency status happens in abrupt and sudden manner. In present global economic circumstances, Chinese renminbi has every right attribute to become a global reserve currency. It would give grater diversification to the global investor class and reduce the burden on the US dollar. Recent studies have pointed out the growing influence of Chinese renminbi in Asia Pacific region. Here, however, it is important to understand that if recent episodes of movement of exchange rate of Chinese currency are any precursor to exchange rate policy of China then it can be inferred that it is the Chinese authorities who are more sceptical on the global role of Chinese renminbi as a reserve currency. However, the authors have not analysed this issue in the present book.

On the issue of use of renminbi as a global reserve currency or its inclusion in special drawing rights (SDRs) of international monetary fund, authors are of the view that it will depend on the pace of internationalisation of Chinese currency. Authors argue that if emerging market economies’ share in the global trade and global output is used as a criterion, then in the present global monetary system, their currencies are under-represented. However, IMF’s decision about inclusion of renminbi in SDR calculations will depend on reforms in the capital account of China and depth and size of global renminbi denominated financial system. In present circumstances, the use of renminbi in SDR is still a substantial time away.

Chapter 7, ‘the Rise of the Renminbi and its Policy Implications’ has posed and attempted to answer some forward looking questions, such as whether rise of renminbi is threat to the Hong Kong dollar, use of renminbi as global reserve currency and rise of renminbi and role of the US dollar in a multipolar world, *etc.* On the role of US dollar and renminbi in a multipolar world, authors have argued that with rising share of emerging market economies in global output and trade and fall in the share of advanced economies, dominance of the US dollar will shrink and that of renminbi will go up. Nevertheless, this does not mean that Chinese currency will eclipse the US dollar and will attain the dominating position in the global financial structure. The authors perceive that the rise of China will be challenged by emergence of other emerging economies (*e.g.* India) and the US will also be able to maintain a sizable share in the global output. Hence, going forward global financial system will be more a mutlipolar sort of system rather than dominated by a single currency.

The book covers quite interesting aspects of growing presence of Chinese renminbi in the offshore market. The book mainly focuses on evolution of offshore deliverable segment of the market. However, analysis of book would have been more enriching if it would have discussed linkages between offshore reniminbi and non-deliverable forward (NDF) segment. NDF segment of renminbi market is operational since much earlier in the 1990s. The book concludes that progressive opening of renminbi to international use has to be seen as a complement to the mainland's financial sector reform, not as a substitute. The book has given a multifaceted overview of emerging scenario in the Chinese offshore currency market. The authors have concluded that in coming years the Chinese renminbi will play an important role in global financial structure as a reserve currency and vehicle of global trade. However, as all forward looking conclusions in any economic literature are based on certain strong assumptions, many of the conclusions of this book are also based on the premise that China would be able to maintain its high growth trajectory. To a large extent, output growth of China is dependent on its share in the global trade. Thus for sustainable economic growth, matching reforms in the domestic economy are equally important. There is no chapter on domestic economic reforms. A chapter on domestic reforms would have made book more complete. That is the only minor lacuna of this book.

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