

One Currency, Two Markets

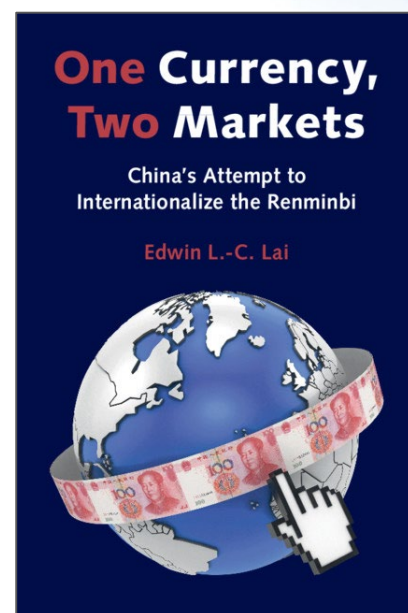
China's Attempt to Internationalize the Renminbi

Author:

Edwin L.-C. Lai, *Hong Kong University of Science and Technology*

This book is for anyone who is interested in the economic analysis of the future of the international monetary system and the USD, and the rising importance of the RMB. It points out the unsustainability of the dollar standard in the long run, that China has unique incentives to internationalize its currency, and how Hong Kong plays an important role. It explains the real reasons for China to internationalize its currency, including using external commitments to force financial sector reforms ('daobi' in Chinese). It applies economic theories accessible to laymen to establish that financial development and openness are crucial for RMB internationalization to succeed, and that greater exchange rate volatility is inevitable due to the 'open-economy trilemma'. Employing the 'gravity model', the book predicts quantitatively that the RMB is likely to be a distant third payment currency after the USD and the euro, but surpassing the Japanese yen in the next decade.

- Examines the economics behind RMB internationalization using an accessible theory to help readers gain an in depth understanding
- Demonstrates the potential of the RMB as an international medium of exchange through rigorous quantitative economic analysis
- Includes detailed coverage of the offshore RMB market (especially that in Hong Kong) and the new international payment system of China



June 2021

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'There is something in this book for both optimists and pessimists of renminbi internationalization. Given the high rates of growth of Chinese real GDP and international trade, continuing renminbi internationalization appears inevitable, certainly as a medium of exchange, and potentially as a store of value, but perhaps not as a 'safe haven' currency.'

Lawrence J. Lau, *Landau Professor of Economics, The Chinese University of Hong Kong, and Li Professor in Economic Development, Emeritus, Stanford University*



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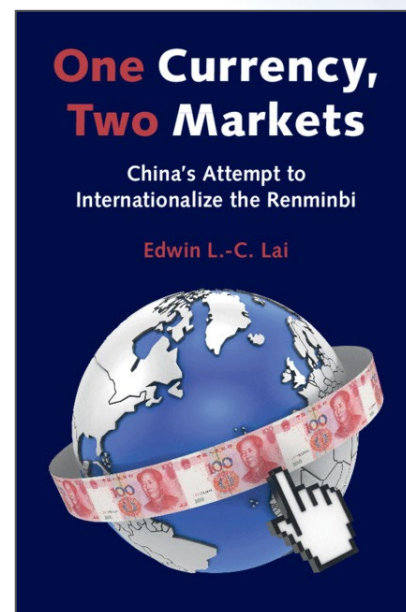
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'Edwin Lai's One Currency, Two Markets presents a balanced qualitative and quantitative analysis of the origin, current status, and prospects of RMB internationalization. It provides insightful discussions on both policy measures and the underlying economic reasoning. It brings readers beyond the headlines and will interest both academics and policymakers.'

Yin-Wong Cheung, *Hung Hing Ying Chair Professor of International Economics, City University of Hong Kong*



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