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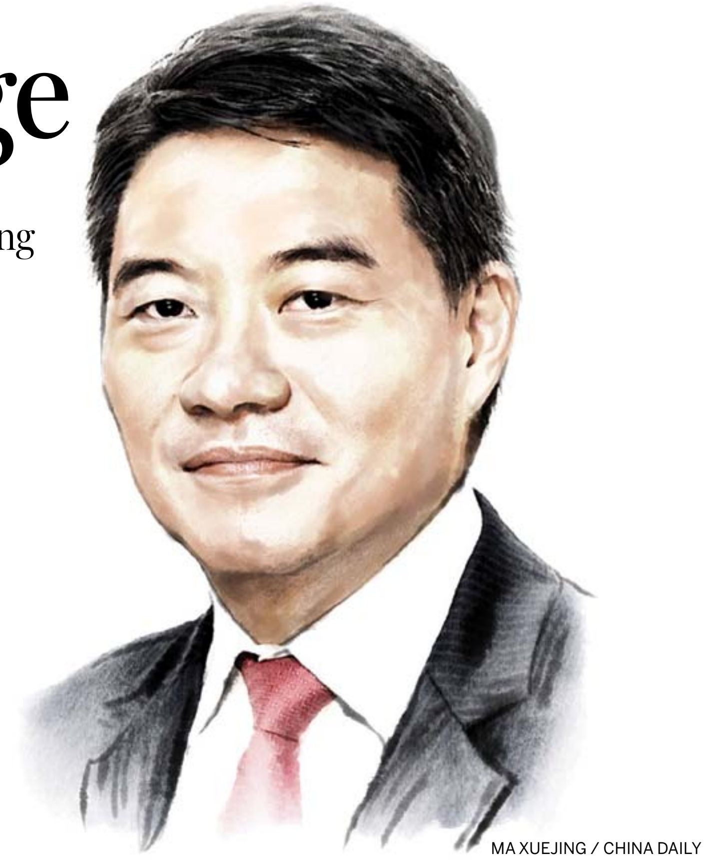
Positive exchange

Singapore-based academic is passionate about explaining why the yuan's internationalization is so important



MA XUEJING / CHINA DAILY

By LOW SHI PING in Singapore
For China Daily Asia Weekly

Germany's central bank announced in January that it would include the Chinese yuan, or renminbi, in its currency reserves, following in the footsteps of the European Central Bank.

This further signaled the growing global acceptance of the yuan, and came on the back of the International Monetary Fund's move in 2016 to include the Chinese currency in the fund's special drawing rights (SDR) basket.

Keeping a close watch over these developments is Lee Boon Keng, director of the Centre for Renminbi Internationalisation Studies (CRIS) in the Nanyang Business School (NBS) at Singapore's Nanyang Technological University (NTU). The 51-year-old Malaysian is also an associate professor of banking and finance at NBS.

Established in March 2016, CRIS works to raise awareness of the internationalization of the yuan. "Our primary objective is to become the go-to organization for information about this process. We also do research related to topics around the Chinese financial and economic environment," Lee explained.

Its website reveals a host of useful resources such as an interactive milestone timeline that tracks the activities around this topic. It also features a detailed history of the major world currencies dating back to the 1800s.

Naturally, given its relationship with NTU, CRIS publishes industry-relevant research and articles about these subjects, written by finance professionals from around the world.

It also organizes events, such as one in January that discussed the impact on Asian geopolitics and economies of the 19th National Congress of the Communist Party of China last October.

From a trade standpoint, given China's prominence, internationalizing the yuan would seem a logical progression, and Lee concurs.

"The yuan as a medium of international exchange will help to lower the transaction costs of trading with China," he said. "More importantly, it will greatly reduce the exchange rate risks attributed to fluctuations in the US dollar.

"This is why China has established swap agreements with many of its trading partners (such as Indonesia) that will allow trades to be settled in yuan, rather than having to settle in US dollars first."

But before delving further into the subject, Lee takes a step back and raises a more fundamental question: What is the definition of the internationalization of a currency?

"Everyone uses (the term) but no one is clear about what it means," he said, adding that even CRIS has yet to come up with a satisfactory answer.

"Does it mean it has to be dominant? We say the US dollar is an internationalized currency because it is a dominant currency.

"What about if it is a currency within the SDR (basket)? It can be argued that it is an internationalized currency because central banks are now somewhat obligated to own some of it as part of their reserves.

"The most unclear part right now is if we should define an internationalized currency as a dominant one. If so, then the US dollar is the only one, because if you go to any country, everyone will take it."

Lee said it is crucial to understand why it is so important for China to internationalize the yuan.

"In the past, China was very nonchalant about the US dollar as a dominant currency. But now it is not. Is it because it has gained political power or economic scale? Or are those two inseparable?

"Let's take the politics out of the discussion first. I think there is a critical economic reason: China needs to wean its reserves management off the US dollar.

"It now has $3.14 trillion in its foreign exchange reserves (as of December 2017). This is the wealth of the nation."

Lee cited the historic Plaza Accord of 1985 when central banks from around the world came together and decided to devalue the US dollar by 50 percent. "If that were to happen today, the dollar holdings in the Chinese reserves would shrink by half, by a policy stroke of the US government, and that is unacceptable."

The obvious answer, then, is to ensure that the yuan gets internationalized as soon as possible.

Unfortunately, standing in its way are the tight capital controls imposed by the Chinese government — for example, the restrictions that apply to foreign ownership in China's bond market.

According to so-called conventional wisdom, a country's capital markets need to be open before its currency can be internationalized. But Lee makes an interesting point: History reveals this was not the way that either the British pound or the US dollar won global acceptance.

The British pound became internationalized when Great Britain went around the world colonizing other countries.

"Is it a size issue, or has the global financial system evolved in such a way that you do need an open capital market for your currency to internationalize? We don't know, but that's worth exploring," Lee said.

The US dollar, too, took an "unconventional" path. It rose to prominence after World War II, when having emerged relatively unscathed, the United States took the lead in manufacturing, international trade, foreign investment and postwar reconstruction.

This was solidified in July 1944 with the setting up of the Bretton Woods system that established a US dollar-centered international monetary operating mechanism.

"History shows that you don't actually need an open capital system to internationalize a currency. This 'conventional wisdom' is written by the Western media and not by China," Lee emphasized.

"China never told the world it needs an open capital markets system. It is the West that says China needs one. In fact, China always says it isn't going to happen."

Instead, Lee is of the opinion that size matters. And China is not short on that. Nowhere is this more obvious than in the setting up of the Asian Infrastructure Investment Bank (AIIB) and introducing projects such as the Belt and Road Initiative.

"These are projects that will help to scale up the usage of the yuan. At some point in time, it will become a dominant currency, especially in certain parts of Africa and the Belt and Road corridor."

Lee's passion for this topic makes him a natural leader for CRIS.

He spent 14 years in the private sector, working in Singapore and with Swiss banks, before returning to academia, his first love, in 2014.

"Over the past two decades, China has emerged as a major player in global finance.

"The years that I was in the industry were marked by that surge in China's importance," he explained.

Apart from CRIS, Lee is also director of the Centre for Applied Financial Education at NBS, which he was interested in leading because of the Platform-Based Learning (PBL) it uses to train banking and finance students.

"This makes them more desk-ready in areas of asset management, market analysis, investment banking and trading," he said.

"Students who have graduated from the PBL have been well placed in the financial sector, with starting salaries around 40 percent higher than the university average."

The conversation inevitably returns to his CRIS portfolio and the question of how and when the yuan will go global.

"So, is China going to internationalize the yuan through a new model never before seen? That is one possibility," Lee said.

Despite its closed capital markets, its wielding of soft power through projects like the Belt and Road Initiative and the AIIB might just seal the deal.

Force him to peer into his 'CRIStal' ball and Lee sees a future where the yuan will be one of the world's three dominant currencies, along with the US dollar and euro, with peace "the important prerequisite".

Bio

Lee Boon Keng

Associate professor, banking and finance, and director, Centre for Renminbi Internationalisation Studies, Nanyang Business School (NBS), Nanyang Technological University (NTU), Singapore

Education:

1992: PhD in economics, New York University, United States

1988: BA in mathematics, Northwestern University, United States

Career milestones:

2014-present: Associate professor, banking and finance, and, since 2016, director, Centre for Renminbi Internationalisation Studies (CRIS), NBS, NTU

2011-14: Head, Investment Solutions Group Singapore, Bank Julius Baer

2009-10: Deputy chief investment officer, Bank Julius Baer

2007-09: Senior investment strategist, DBS Bank

1993-2000: Assistant professor, economics, NBS, NTU

Quick takes:

Why did you leave academia in 2000 to enter the private sector?
I felt that if I wanted to be a good teacher in finance, it was critical for me to understand how it is practiced, and not merely from a theoretical perspective. While the learning curve may not be as steep as for someone new to finance, I still needed to learn how to use the tools of the trade, and understand messages from the market and its nuances.

What is the value of having a center like CRIS in Singapore?
Singapore is an important financial center and the third-largest yuan clearing center in the world. Also, NBS is an important business school and we want to be at the forefront of information and research of this topic. However, it is still early days and a lot still can be done. To quote (the late Chinese leader) Deng Xiaoping, we are "crossing the river by feeling the stones".

How should businesses prepare for the yuan's internationalization?
At a strategic level, if they believe there will be peace in the next 10 to 20 years, then the Belt and Road Initiative and Chinese globalization initiative will continue. They should participate in the Belt and Road Initiative by preparing for a borderless, technological revolution that is going to happen. The Chinese have the technology readily available. Businesses should embrace that.

Date of birth: Dec 16, 1966