Book Reviews


The nascent yet gradually expanding “offshore renminbi” phenomenon is the latest manifestation of an increasingly ambitious and multifaceted commitment on the part of the Chinese authorities to outward internationalization. At the same time, it is also emblematic of China’s determined quest for status, power, and influence in the 21st century. While this development will primarily affect global financial markets, the prospects, challenges, and implications presented by the internationalization of the Chinese currency have remained comparatively underresearched. Indeed, it has been a general practice to draw attention to China’s exchange rate policy rather than to countenance the internationalization of the renminbi. This omission is especially puzzling, considering the extent of China’s rise, especially if viewed against the backdrop of a global wealth and power shift and deepening economic integration—regionally and globally. In The Offshore Renminbi, Minikin and Lau have provided an enlightening examination of what will unquestionably emerge as a defining dynamic in the 21st-century financial order.

Over the course of seven chapters, the book offers a systematic examination of the offshore renminbi trend, outlining the underlying motivations, identifying the regulatory and policy implications, and considering the growth potential for the renminbi market. The authors begin by arguing that Beijing’s renminbi decision stands “at odds with the typical pattern of FX management for fast-industrializing Asian economies” (p. 3), all the while being careful to acknowledge that China’s promotion of a new global role for the renminbi “may not be fully realized until its capital account is entirely realized—a development that may be between some ten and twenty years from now” (p. 203).

While the global financial crisis of 2007–2008 highlighted the relative “overdependence on the US dollar in international trade” (p. 8) and generated significant demand-led tailwinds (in both public and private sectors) for renminbi internationalization, the process remains vulnerable to so-called “diversion” and “instability” risk factors. The former, according to the authors, implies the risk associated with gradual currency internationalization potentially detracting from the need for further and sustained domestic financial-sector reforms, whereas the possibility of capital flow volatility and lingering divergence between Chinese and international monetary policy could well slow down renminbi internationalization in the near to medium term. Even so, the authors contend that the
renminbi’s “building role as a significant trade invoicing and settlement currency looks assured” (p. 24).

Chapters 2 and 3 deal with the nature of the financial linkages between offshore and onshore renminbi markets. The authors identify transferability, external deliverability, investability, and full convertibility as critical elements in deepening the linkages, with the latter two linkages crucial in charting a path for the increasing international usage of the renminbi. Investability will be determined in large measure by the degree to which Chinese authorities allow international investors a greater role in domestic asset markets. At the same time, full convertibility needs to be accurately timed so as to mitigate potential dangers that accompany the “transition between heavily controlled and fully liberalized markets” (p. 45). Yet, even short of full convertibility, renminbi internationalization still holds the potential for development of new markets. Indeed, the pragmatism and gradualism that has come to define Chinese economic reform and restructuring since 1978 is reflected in a more phased internationalization that has enabled, at least in the near term, the close control of domestic financial markets and experimentation in the area of capital market innovation. Chapter 3 offers a comprehensive overview of China’s institutional arrangements to allow for the successful development of offshore markets.

The authors introduce the reader in chapter 4 to the emerging jargon that accompanies the developments of the offshore market in Hong Kong. Of all the chapters, this is by far the most technical and dense, albeit replete with highly relevant information for anyone interested in learning more about intricate financial market details.

Chapter 5 focuses beyond the shores of Hong Kong to elucidate a new phase of development of the offshore renminbi market—a trend described as a “hub-and-spokes” model (p. 139). Despite expanding trade dynamics that serve as a powerful catalyst for offshore renminbi expansion beyond Hong Kong, rapidly expanding direct renminbi cooperation between the People’s Bank of China (PBoC) and a growing number of foreign governments and/or central banks, and Shanghai’s nascent aspiration to emerge as an international financial center in its own right, Hong Kong appears well positioned to retain its position as the leading offshore renminbi center. This is due to Hong Kong’s sovereign and proximity advantages, the presence of corporates with a long history of doing business in China, financial institutions with extensive international networks, well-established financial infrastructure, and the city’s strategic value within mainland China’s plans (pp. 151–152).

The emerging public policy objective to “replace” the U.S. dollar as the dominant reserve currency, China’s powerful role in the global economy, a subsequent rise in the willingness of corporates from most emerging markets to use renminbi for invoicing and trade settlement, and international investors’ hope to diversify into new currency asset markets have all combined to create powerful drivers for internationalization. As chapter 6 outlines, the renminbi internationalization push reflects to a significant degree Chinese authorities’ “concerns over the current state of global currency arrangements” (p. 168), particularly if “the self-reinforcing concentration of international transactions on a single national currency may put the issue of that currency in a privileged and powerful position” (p. 172).
The authors close their study by looking at regional and global policy implications for renminbi internationalization. On a regional level, the renminbi does appear to have the potential to emerge as an FX anchor in the longer term. On a global level, renminbi internationalization is also fueled by an “ambition to trim the extent of the global trading and financial system on the US dollar” (p. 213). Relevant and consequential as this motivation is or could be, the authors devote comparatively little space to it. The discussion of this perspective would have measurably benefited from a more comprehensive framing of the renminbi rise against the backdrop of what has been variously described as a potential and inevitable geopolitical rivalry between the United States and China in the 21st century. Having earlier acknowledged that “the renminbi internationalization dynamic will be driven by policy—not just economics” (p. 173), a more substantive elaboration on the broader geopolitical context and implications would indeed have been warranted. However, whereas “the balance of power will steadily shift toward the renminbi” (p. 202) and it will emerge as a major international currency *alongside* rather than *eclipsing* developed currencies, the Chinese authorities will still have to contend with significant domestic challenges. Nor, for that matter, is the international system in the 21st century comparable to the post-WWII environment that facilitated the emergence of the U.S. dollar as a dominant international currency.

Even if *The Offshore Renminbi* lacks a comprehensive framing of the renminbi’s rise in the broader geopolitical and U.S.-China hegemonic competition debate, the authors have done an excellent job in elucidating the motivations, manifestations, and policy implications of what will invariably be one of the most far-reaching and consequential developments in international financial markets in the 21st century.

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This book makes a valuable contribution to understanding the impact of direct village elections on political attitudes and behavior and regime legitimacy in authoritarian states. In this study, Gunter Schubert and Anna L. Ahlers seek to understand whether the Chinese Communist Party (CCP) has been able to strengthen regime legitimacy and stability through village elections or whether these elections have effectively established the foundation for a bottom-up mobilization; the authors find support for strengthened regime legitimacy but not for bottom-up mobilization. The authors use original survey data collected from 2002 to 2005 from villages across three provinces: Shenzhen, Jilin, and Jiangxi. These provinces represent different levels of economic development: “highly developed (Shenzhen), moderately developed (Jilin) and less developed (Jiangxi)” (p. 67).