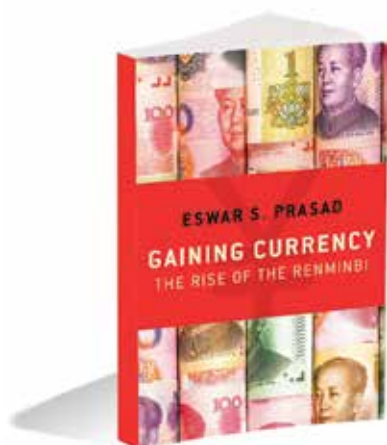


The Long View



Eswar S. Prasad

Gaining Currency

The Rise of the Renminbi

Oxford University Press, 2016, 344 pp, \$29.95 (hardcover).

What's not to like about a book that runs the gamut from Kublai Khan to Mao Zedong to Donald Trump?

Such is the scope and range of Eswar Prasad's new book *Gaining Currency: The Rise of the Renminbi*. In it, the author capitalizes on the current fascination with all things China to spin a yarn of how the renminbi rose to global prominence and the future challenges facing China as it evolves into a market-based economy that is fully integrated into the global system.

So far, China has forged a remarkable and unique path in making the renminbi a global currency. This becomes clear in Prasad's description of how it eschewed the typical route of capital account liberalization and, instead, punched discrete and controlled holes in its capital controls to allow money to flow in and out. China's unique path is again evident in the recent inclusion of the renminbi in the basket of currencies that make up the IMF's Special Drawing Rights (SDRs); in China's efforts to establish new institutions for international financial cooperation such as the Asian Infrastructure Investment Bank; and in China's expansion of political and economic interest

through cross-border financial support. Finally, Prasad captures an even bigger picture of Chinese exceptionalism as he describes the country's unprecedented attempt to implement a liberal, market-based economic system while preserving "one-party rule...[with] neither an open political system nor an independent judiciary."

Prasad comprehensively guides us through the various twists and turns as China ascends to its place in the global system, one that corresponds with its economic size. He paints a picture of both missteps and successes from an administration in Beijing that takes the long view and shrewdly exploits opportunities to further China's national interests. The book carefully cuts through the cloudy rhetoric of reform to pinpoint what is happening on the ground, beyond what is being written on paper.

One particular strength of the book is that Prasad takes the time to carefully walk the reader through the ideas of what it means to be a reserve currency, what the "internationalization" of the renminbi is, and how these concepts relate to capital account openness. Perhaps it is a reflection of my own nerdy economist predilections, but as Prasad traces out this path I would have appreciated a few more charts to help elucidate that narrative.

The book is at its most interesting and enlightening when it tries to tease out from the smoke and mirrors the political motivations behind various policy choices. How were the decisions to peg and de-peg from the U.S. dollar made? Why did being part of the SDR become such an important milestone for China? What are the likely prospects for economic, judicial, and political reform? Prasad usefully highlights the conflict and schizophrenia of the Chinese political elites who want the freedom of choice inherent in a market economy but, at the same time, display a deeply held risk aversion that repeatedly

leads them back to a central planning mind-set and the assertion of government control over outcomes (particularly when growth looks like it's flagging). He also provides context by capturing the essence of international reactions to China's actions, particularly on the complicated relationship with the United States over the dollar-renminbi exchange rate.

As outsiders, we never really know what's going on.

My one minor criticism of the book is that it presents these behind-the-scenes perspectives on domestic political motivations as being a little too definitive. Chinese politics is labyrinthine and opaque. The Communist Party of China is remarkably nonmonolithic, with dissent and disagreement always hidden below the surface. And there is a vibrant competition of ideas within the administration amid continuously shifting patterns of internal alliances. All of these factors make it extraordinarily difficult to diagnose, dissect, interpret, and extrapolate on the political motivations underpinning policy choices. Any guess of what really drives these behind-the-curtain machinations should humbly accept that, as outsiders, we never really know what's going on.

There is an old Chinese proverb that says those who are closely involved can be blind while bystanders can see clearly. That is certainly true of this book. Unencumbered by political ideology or national interest, Prasad is able to walk the reader through the complex geopolitical and economic challenges associated with the renminbi—and to do so with informative and engaging prose.

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