
RMB internationalization and its implications for China and the world

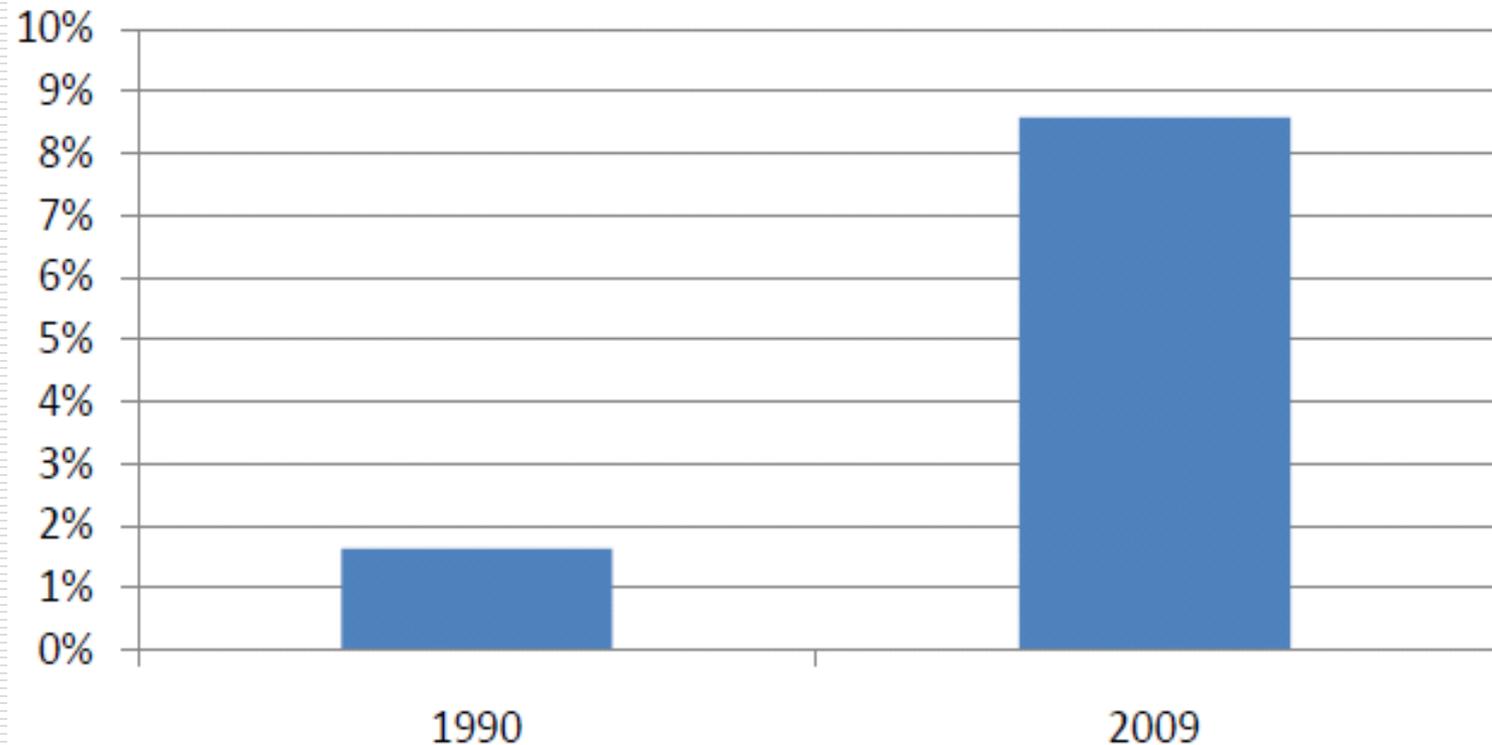
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Rise of China

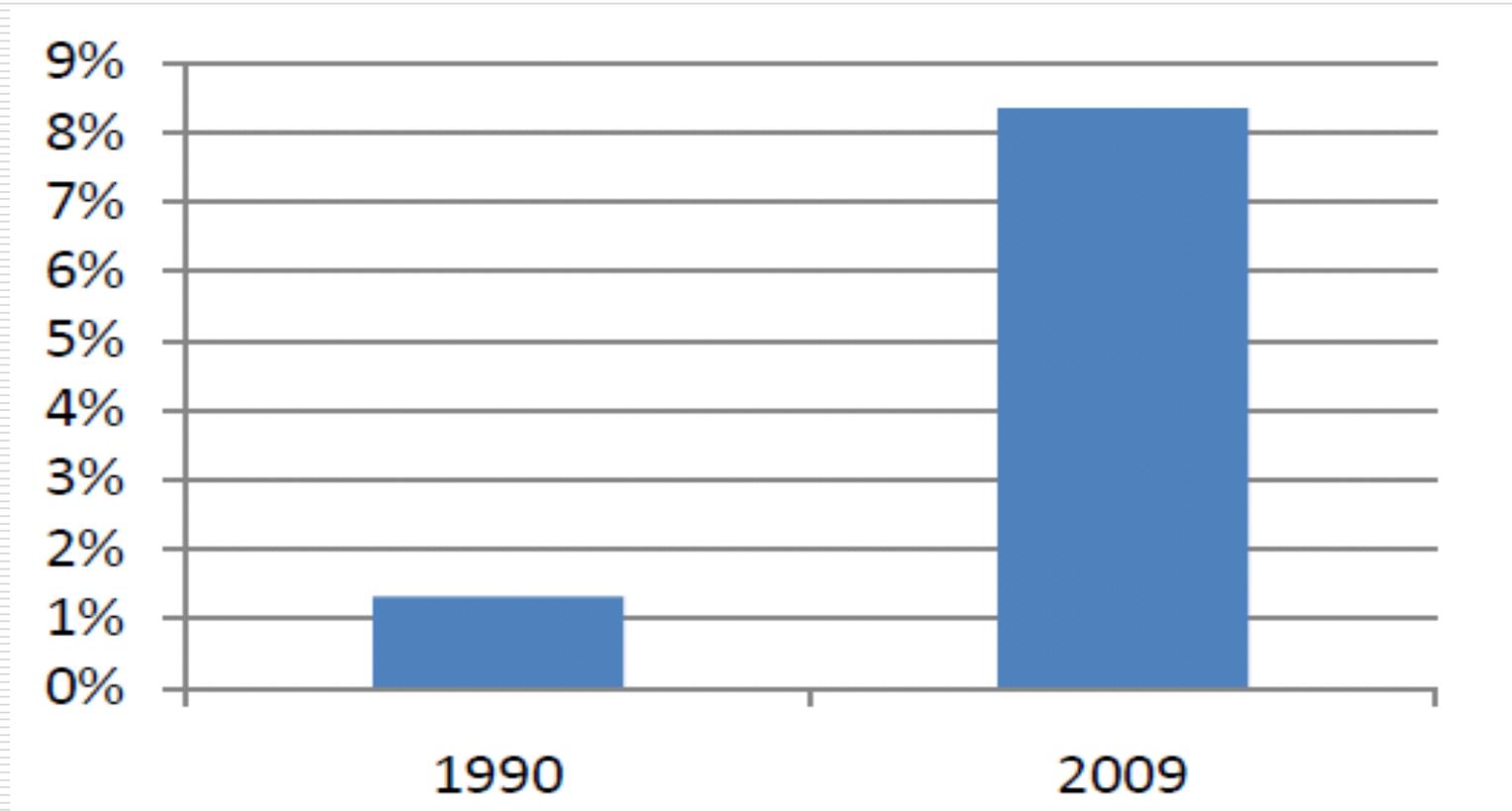
- **The world's second largest economy** after the U.S. at market exchange rates since 2010.
 - **The largest exporter** after overtaking Germany in 2009.
 - **The largest manufacturer** followed by the U.S. in value added measured in current prices.
 - **The second largest recipient of FDI** after the U.S. with about \$100 billion in 2010.
 - **The world's largest holder of foreign-exchange reserves.** (about USD 3 trillion till 2011Q1)
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China's Share of World GDP (%)



Source: World Development Indicators

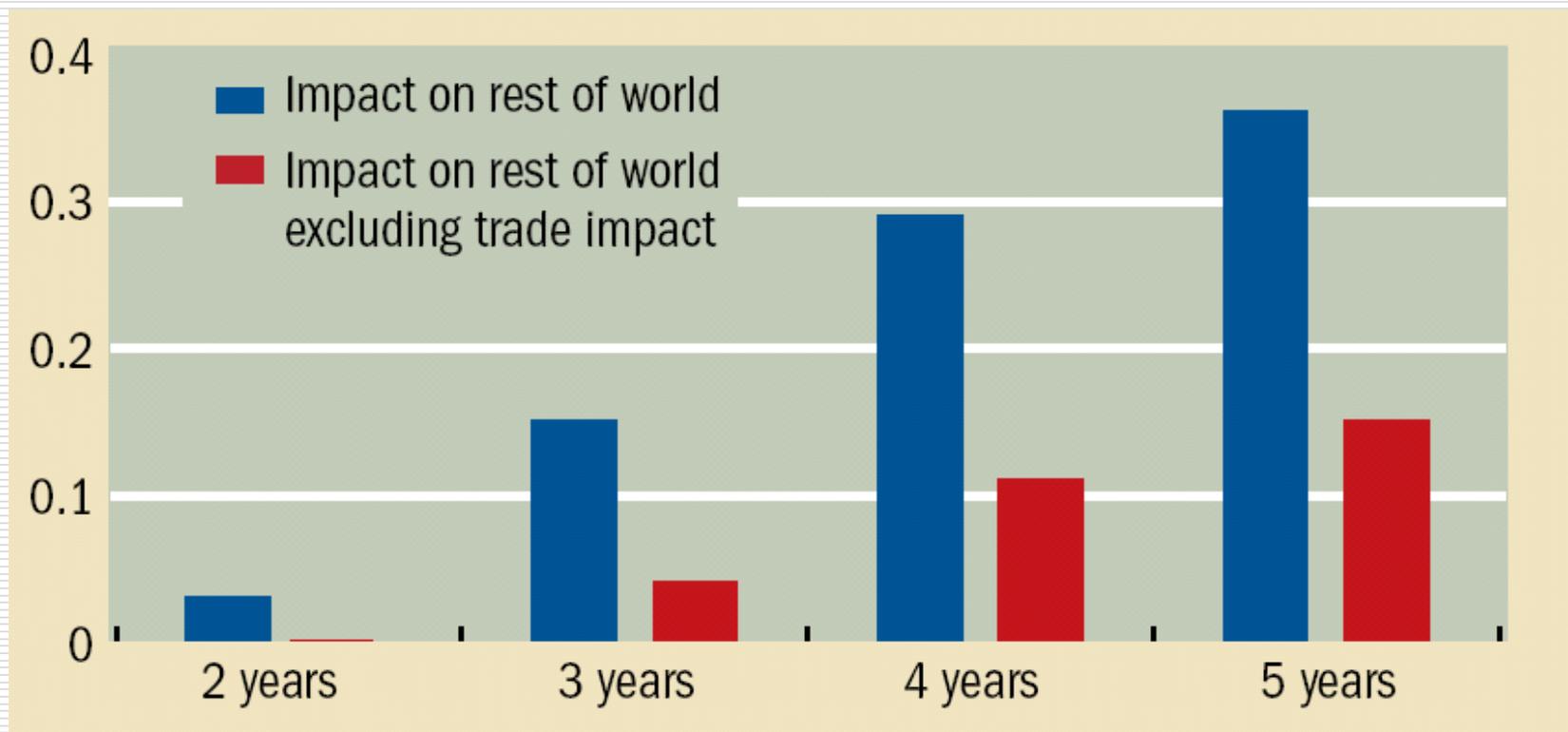
China's Share of World Exports of Goods and Services (%)



Source: World Development Indicators

Global impacts of China's growth

(cumulative effects of a 1 percentage point rise in China's growth on growth in other countries, in percentage points)



Source: Arora and Vamvakidis (2010)

China factor

- China's price
 - China's market
 - China's role in global governance
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Mismatch between real economy and financial superstructure

- Emerging market economies' share of world output (measured by PPP) will exceed that of advanced economies in 2013, while in the financial world, the voice and influence of emerging market economies are equivalently very weak.
 - China as the largest emerging economy is just a typical example.
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Implications of renminbi internationalization for China

□ Benefit

- Elimination of foreign exchange risk
- Seignorage
- External financing denominated in RMB (without “original sin”)
- Competitive advantages of China’s financial institutions vis-à-vis the outside world
- Serve as an outside hand, putting forward the reform of China’s financial system

□ Challenge

- RMB internationalization will logically make China’s economy, especially its financial sector, exposed to a significant amount of external risk.
 - Challenge to monetary policy
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Implications for the world

- Challenge to the international monetary system
 - Mitigate the problems caused by U.S. Dollar hegemony
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Steps of RMB internationalization

- Cross-border trade settlement
 - Offshore renminbi business
 - Currency swap lines
 - Recent development
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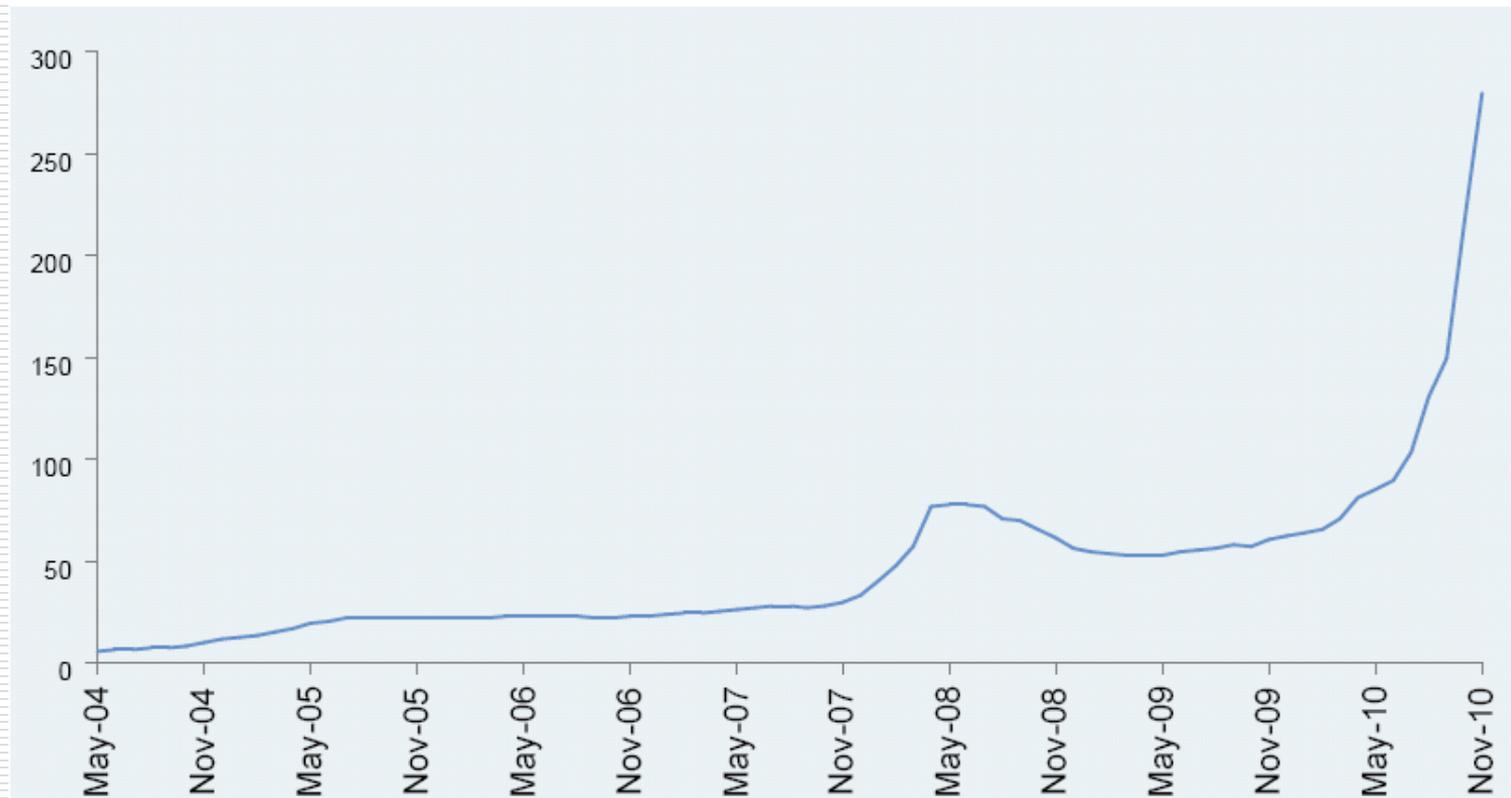
Cross-border trade settlement

- China introduced cross-border trade settlement in renminbi in July 2009
 - One trial will be for trade between the Yangtze River Delta and Pearl River Delta regions, China's primary export regions, and the Special Administrative Regions of Hong Kong and Macau.
 - A second yuan settlement trial has been proposed for exporters in the Guangxi Autonomous Region and Yunnan province in southwest China to use the Chinese currency to settle trade with counterparts in the 10 countries of the Association of Southeast Asian Nations (ASEAN).
 - The volume of cross-border RMB trade settlement has grown rapidly since the expansion of China's pilot program in mid-2010. But the total volume of trade settled in RMB in 11M2010 (RMB 380 bn) **only represents ~2% of China's total trade.**
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Offshore renminbi business

- China launched this initiative (RMB intl) in 2004 when it allowed Hong Kong residents to open **renminbi deposit accounts** in Hong Kong banks.
 - In the second half of 2010, followed through by launching a wave of measures that dramatically broadened the scope for offshore renminbi business.
 - Key reforms included allowing certain offshore financial institutions to tap into the onshore interbank bond market, using the RMB in currency swaps with emerging market trading partners and allowing institutions across industries to open RMB accounts in Hong Kong.
 - In September, 2010, the Chinese currency also crossed a notable milestone in terms of achieving status as a reserve currency when **Malaysia's central bank reportedly added a sum of RMB assets to its holdings.**
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Renminbi Deposits in Hong Kong (RMB bn)



Source: HKMA

Currency swap lines

- Since December 2008, China has signed eight currency swap agreements worth a total of 803.5 billion yuan (\$123 billion) with Indonesia, South Korea, Hong Kong, Malaysia, Belarus, Argentina, Iceland and Singapore.
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The PBoC's CNY Swap Lines

Country	Date	Central Bank	Notional Amount	
			CNY	Local Currency
Argentina	02-Apr-09	BCRA	CNY 70bn	ARS 38bn
Belarus	11-Mar-09	NBRB	CNY 20bn	BYR 8000bn
Hong Kong	20-Jan-09	HKMA	CNY 200bn	HKD 227bn
Iceland	09-Jun-10	Central Bank of Iceland	CNY 3.5bn	ISK 66bn
Indonesia	23-Mar-09	BI	CNY 100bn	IDR 175tn
Korea	12-Dec-08	BoK	CNY 180bn	KRW 38tn
Malaysia	08-Feb-09	BNM	CNY 80bn	MYR 40bn
Singapore	23-Jul-10	MAS	CNY 150bn	SGD 30bn

Note: For all the above swap arrangements, the effective period of the arrangement will be three years, and could be extended by agreement between the two sides.

Recent development

- Chinese firms would be permitted to transfer RMB offshore to invest in new ventures, M&A and stake purchases abroad. China's onshore banks will be able to extend RMB-denominated loans for these overseas investments and profits may also be repatriated to China in RMB.
 - Residents in Wenzhou will be allowed to make direct overseas investments of up to RMB200 million per year.
 - Bank of China's New York branch has begun offering RMB accounts whose holders may exchange up to USD4,000 per day, with a USD20,000 cap per annum.
 - Hong Kong Exchanges is actively looking at means to make the listing of RMB-denominated shares viable and expects such issuances to begin in 2011.
 - On April 14, 2011, the development banks of the five BRICS nations agreed in principle to establish mutual credit lines denominated in their local currencies.
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To what degree the Renminbi is used internationally/regionally

- Settlement currency:
 - rapid development

 - Vehicle currency for third-party trade or foreign exchange transactions:
 - none

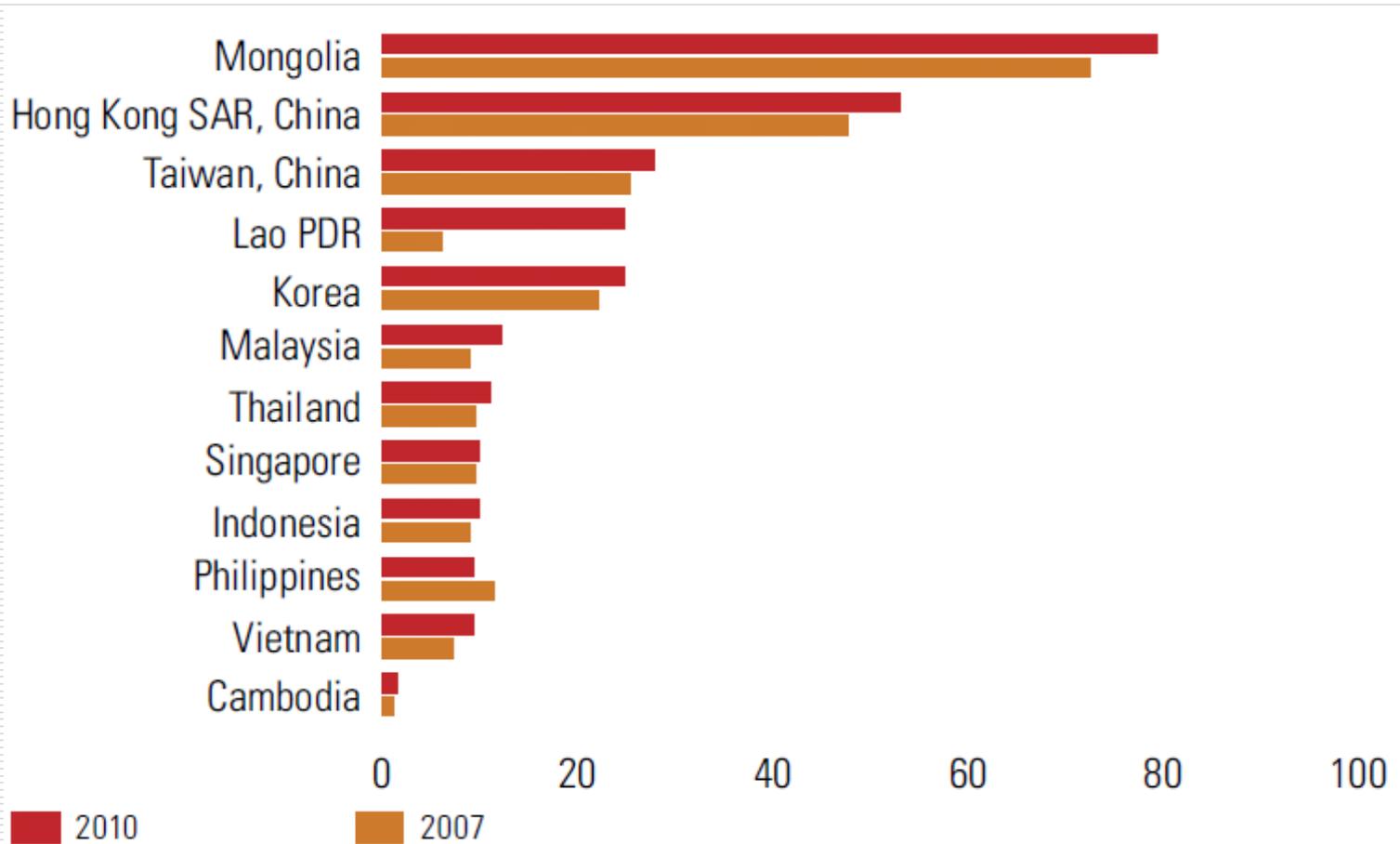
 - Unit of account (most significantly for commodity pricing)
 - None
 - Some attempts made by Russia, Iran and Venezuela

 - Reserve currency:
 - involved in SDR?
 - in some countries to the very limited extent
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Road ahead

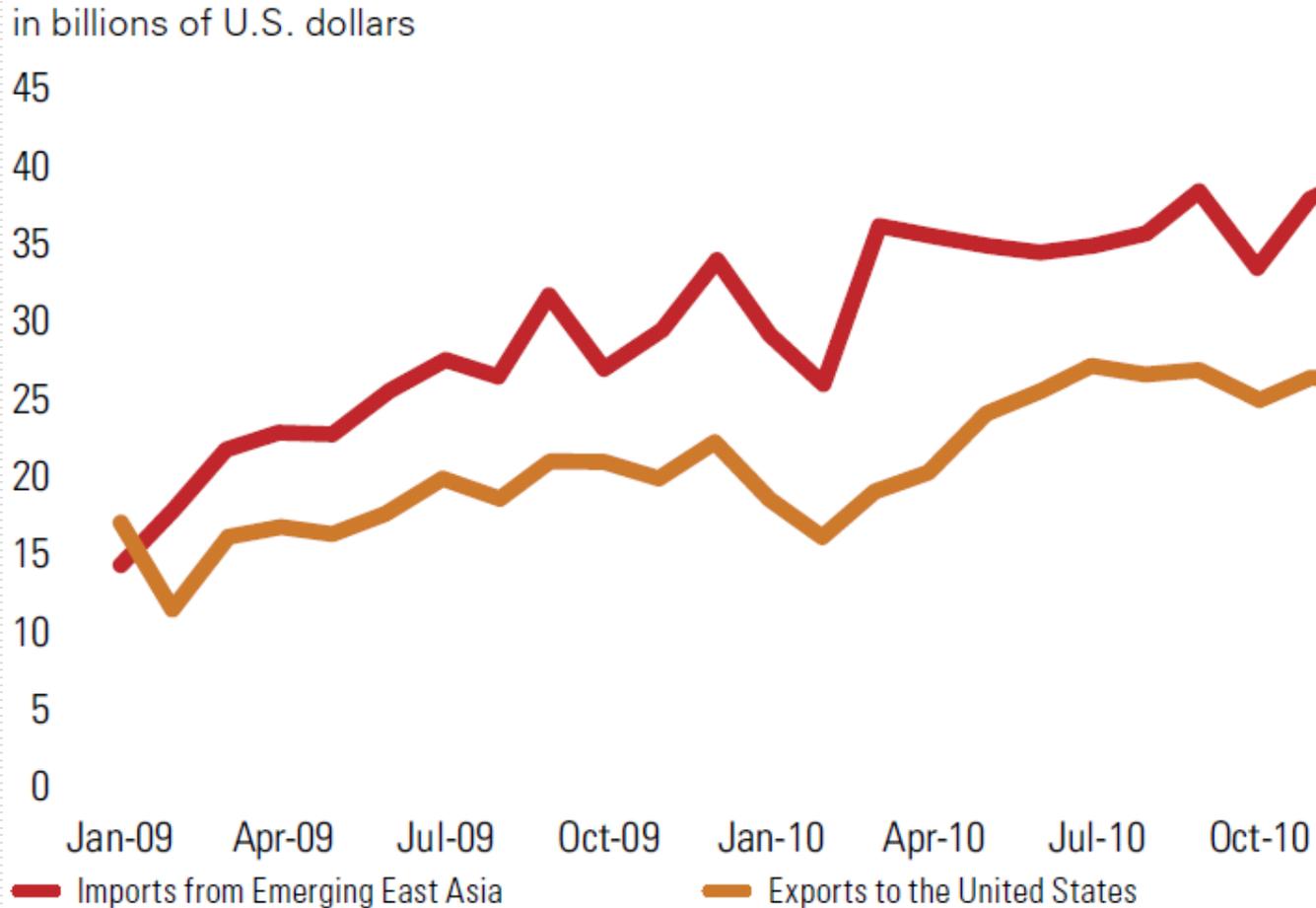
- RMB internationalization could only be achieved by performing a dual-task: gaining influence regionally on the one hand, and reforming radically China's domestic financial system on the other hand.
 - Asian currency collaboration
 - Further opening and reform of China
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East Asia Exports to China (in % of total country exports)



Source: CEIC.

China's imports from East Asia are larger than its exports to the U.S.



Source: CEIC.

Further opening and reform of China

- Reform the largely state-dominated financial system
 - Financial market development (deep and highly liquid markets for short-term Chinese government securities)
 - Interest rate liberalization
 - flexibility of exchange rate regime
 - Capital account liberalization

 - Changes to the growth model
 - rely less on external demand
 - accumulate very substantial external liabilities

 - Significant reforms in the rule of law; political and social stability
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THANKS

谢谢
