



The Gap between the Degree of Internationalization of RMB and Other International Currencies

Jiedong Zhang^{1,*}

¹ The University of Sydney, Camperdown/Darlington Sydney, NSW 2006, Australia

*Corresponding author. Email: jzha5498@uni.sydney.edu.au

ABSTRACT

From 2009, Chinese authorities have pledged to promote the globalization of the Renminbi (RMB). As such the nation has taken a number of concrete efforts to encourage RMB globalization, including the opening of the capital market in Huguangdong, the expansion of the international RMB, and the creation of a Cross-Border Interbank Payment System (CIPS). Thus, the Renminbi's exchange rate mechanism is being reformed, and crude oil futures are being developed. The inclusion of the Renminbi in the SDR, BRI, as well as the formation of the AIIB all add to the currency's greater globalization. On one end, the BRI allows for the expansion of the Renminbi into a currency for foreign dealings and improves the Renminbi's status as a global currency.

Keywords: Renminbi, RMB, internationalization, globalization, RMB global index.

1. INTRODUCTION

China has recently continued to show their significance within the international economy, even as the government-backed reforms in policies have created an ideal ground for increased usage of the renminbi (RMB) throughout the global monetary and financial platform. This spike in both financial and economic dealings along with widespread RMB trading caught the eye of the IMF Executive Board in late 2015[1], before electing to make the renminbi part of its special drawing right (SDR) group of currencies towards the end of 2016 [2]. This pronouncement by the IMF marked a new milestone through the Chinese economy's admission in the international financial system. To give a clear perspective of this progress, this paper will review the degree of RMB internationalization in comparison to other global currencies. It gives a brief overview of globalization of currencies plus the drivers of currency internationalization in view of current literature, before looking at the historical process of RMB based on the proportion of international use.

2. INTERNATIONAL CURRENCY

2.1. International currency definition

A global currency is one that is utilized and kept outside the limits of the country of issue, and not just

transact with locals, but to transact with non-citizens [3]. Furthermore, a global currency serves numerous functions, similar to the ones of a domestic currency, including being a unit of account, means for paying, and storage of value. Through this, the private sector can utilize the currency as a transactional tool in terms of financial transactions or invoicing, even as the public use it to anchor interventions or as a reserve currency [4].

2.2. Drivers of currency internationalization

Whereas markets primarily drive currency globalization, policies and reform may play an important supportive role. Along that line, the Chinese government has undertaken policy reforms meant to spur the globalization of the RMB whilst strengthening macro-financial stability by gradually developing functional markets, transitioning to interest rates plus prices that are determined by the market, inclusive of enacting sound policy frameworks [5].

New policies to encourage RMB globalization, inclusive of renminbi's usage as a currency for funding and investment have focused on three primary areas, entailing incremental capital account opening, national financial system strengthening, as well as supporting offshore liquidity via modifications to the infrastructure used for cross-border transactions plus swap lines for the central bank [6].

2.3. Integration of BRI in Renminbi (RMB) Internationalization

The government of China devoted to spurring the internationalization of the Renminbi (RMB) which has seen it unveil numerous direct initiatives augmenting that cause, inclusive of opening the Huiyuan market, expansion of RMB offshore, the unveiling of a cross-border interbank payment system or CIPS. In the same vein, the exchange rate model reforms for RMB, expanding their crude oil prospects. The inclusion of the Special Drawing Right (SDR) basket currency, Bridges and Roads Initiative (BRI), as well as the Asian Infrastructure Investment Bank AIIB creation have made significant contributions to the globalization of the Renminbi. The BRI offers an opportunity making the RMB a foreign trading currency, strengthening its position in the global trade currency market. It also implies that China is poised to promote RMB globalization via cross-border payments using RMB, encouraging further globalization through ODI, as well as boosting process of exchanging RMB, while augmenting its domestic financial framework.

3. ANALYSIS OF RMB GLOBALIZATION

3.1. Analysis of RMB Globalization Index

Since the commencement of RMB globalization ten years ago, marketization efforts for the currency have escalated, resulting in its increased worldwide recognition; RMB internationalization has weathered whole-process testing and accomplished significant development progress [7]. RMB globalization index is a standard rating for the expansion of the Renminbi in external usage by covering four key elements that encompass CNH deposits, business settlement inclusive of other global transactions, dim sum bonds plus the issued certificates of deposit, and turnover from foreign exchange, pointed to a steady growth in the globalization of the Renminbi in recent years (Figure 1) [5].



Figure 1 RMB Globalization Index.

Nevertheless, the majority of its success from 2009 is attributable to its application towards settlement of trade plus direct investment. Even though the RMB's usage as a global finance and reserve currency is increasing, it is still in its initial phases. Aside from being traded regularly abroad, the RMB's liquidity seems to be equivalent to those of other international currency pairings, according to evidence.

3.2. RMB Globalization Progress via RMB Internationalization Index RII

As the epidemic intertwines with significant developments not witnessed in a century, all countries confront extraordinary difficulties. Notwithstanding the pandemic's onslaught, both the economic and financial structures of China demonstrated resilience, in which the globalization of the RMB progressed despite obstacles. The RMB's status as a method of denomination and settlement for the global commerce became more solidified in 2020 [8].

The RMB's status as a global reserve currency has barely budged, with very modest development. The RII reached 5.02, increasing 54.20 percent year on year (Fig. 2) thus setting a new high, surpassing both the GBP plus JPY to make the world's third biggest currency. The Renminbi Internationalization Index (RII) was 4.10 in Q1 of 2020, 5.19 in Q2 of 2020, 5.14 in Q3 of 2020, and 5.02 in Q4 of 2020, indicating a strong rise with swings at higher levels [9].

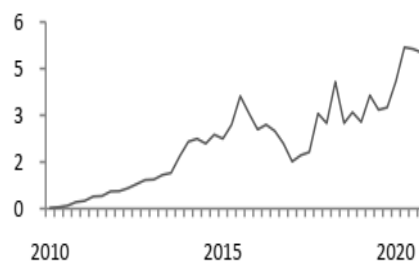


Figure 2 RMB globalization progress between 2010 and 2020. [8]

3.3. Renminbi global financial denomination and settlement augmented

The liberalization of the capital account of China has resulted in significant progress even as the usage of the Renminbi grew more liberated. In 2020, the global financial denomination as well as settlement surpassed trade settlement as the primary driver of RII growth [9], accounting for 9.89 percent, rising by 84.23 percent in comparison to 2019, to become a key driving element for the growth of RII (Fig. 3 & 4) [8].

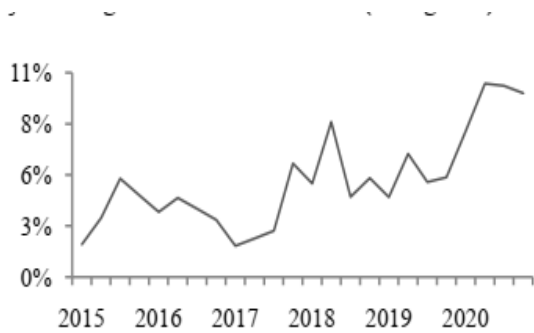


Figure 3 Global overview of RMB’s globalization and its related internationalization drivers.

The volume of RMB global loans and deposits increased in 2020 [9]. For instance RMB foreign credit loans was 0.62 percent of global totals, an increase of 9.14 percent year on year. Financial institutions' RMB offshore loans increased 13.56 percent compared to 2019. COVID-19 has a negative influence on the issuance of RMB foreign bonds. The position of international bonds and notes totaled \$111.287 billion, representing 0.41 percent of the global aggregate and a decrease of 0.18% points from the high of 0.59 percent at the close Q4 2015. Notwithstanding the disruption caused by COVID-19, RMB's direct investment increased significantly in the last six months of 2020. The sum total for the entire 2020 was 3.81 billion yuan, representing an increase of 37.05 percent in comparison to 2019, making a new record high [8].

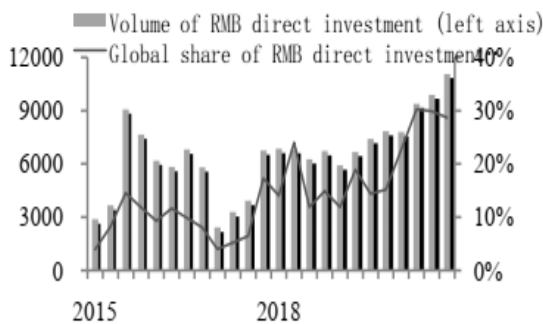


Figure 4 RMB international share of direct investment v.s. volumes of direct investment.

4. COMPARISON OF MAJOR CURRENCIES’ GLOBALIZATION INDICES

The globalization indexes of the USD, ERU, and JPY are calculated using the same procedure as the RII (Fig. 5). The USD globalization index reached 51.27 in 2020, dropping 0.09 from the preceding year's ending. With a poor performance throughout pandemic containment, the United States endured severe economic shocks, including its yearly GDP falling by 3.5 percent, a historic low after 1946 [9].

The USD index as well as world demand for USD went through an up then down cycle., with its global reserves volume falling by more than 1.71 basis points. Nevertheless, the USD's position as the world's leading currency continues mostly steady. The EUR has a globalization index of 26.17, increasing 0.17 in comparison to 2019, indicating that its worldwide standing has risen somewhat. The Eurozone's part of the investment and financial markets increased, as the EUR's standing was solidified, but its commerce plus direct investment shares declined amidst the Eurozone's severe entangled in recurrent pandemic onslaughts, economic slump, and internal split. The GBP recorded a historical low globalization index of 4.15, implying the United Kingdom's bogged down economy attributable to the epidemic plus Brexit .

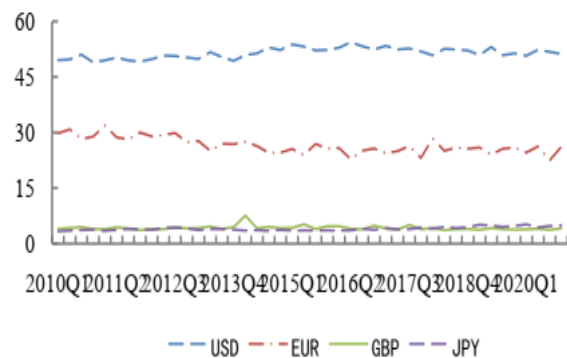


Figure 5 Comparison of major global indices.(Y-axis=Rate of Internationalization Index)

UK GDP was contracting; its export-import balance was eroding; resulting in rapid loss of the GBP's attraction to international investors. On the other hand, the JPY globalization index was 4.91, increasing 0.13 from 2019, with a little improvement in global rating. Japan was experiencing a significant decline in spending and investment, as well as a decline in its international commerce plus industrial sector. With the improvements in external demand as well as the JPY's demand growth in the second part of 2020, it was all thanks to a rising risk-aversion sentiment, resulting in a 0.1% increase in points of the share of the Japanese Yen in terms of foreign reserves.

5. ENLIGHTENMENT TO CHINA

5.1. Progressive capital account opening

Although China enabled Renminbi conversion for trade accounts about 20 years ago, activities are still tightly controlled on the capital account to different levels . Quotas, limits, as well as preapprovals are commonplace with China's Capital account dealings . 5 Even so, in terms of the country's overall reformist initiative, the government has progressively eased restrictions, broadened access streams, as well as increased quotas allowing two-way

flows, such as where the US dollar "Qualified Foreign Institutional Investor — QFII" initiative, providing accessibility to the securities market of China's mainland to foreign portfolio managers since 2003, and the US dollar "Qualified Domestic Institutional Investor — QDII" initiative, allowing portfolio managers from China access to the international securities markets since 2006, based on quotas and approvals.

5.2. *Reduced Regulatory Barriers*

Measures have been put in place to ease transactions transnationally, notably lowering of regulatory clearance costs. Likewise, the capital account's requirements for some direct investment transactions have indeed switched to registration as well as monitoring from preapprovals [10]. The State Administration of Foreign Exchange (SAFE) monitors every transaction as well as makes a follow up through banking institutions on any anomalous transactions. According to the, the authorities believe that capital account globalisation will progress on a widespread rationale to lessen troublesome capital flows on the short-term, prevent mismatches involving currency with maturity, as well as provide strict monitoring to combat financing of terror activities, money laundering, plus tax fraud.

5.3. *Increased market accessibility to official entities plus long-term investors*

Through the last year, the government has already taken particular steps to facilitate foreign governments' and commercial organizations' access to domestic markets, such as lifting limits on the types of securities and quantities approved for investment. The government, nevertheless, anticipate that these entities will operate as long-term investors where the PBC would control their transactions in compliance with transparency principles as well as macroprudential standards .

6. CONCLUSION

Over the last ten years, the RMB's globalization has evolved significantly. The Renminbi is now extensively utilized as a settlement currency to settle China's global commerce plus direct investment dealings, thanks to its expansion facilitated by Hong Kong's offshore market SAR. While its globalization has been aided by comprehensive policy reforms that assist the country make the transition to a more sustainable economic path, the globalization of the RMB is ultimately influenced by the market. Away from the increased global Renminbi usage plus trade, it will take some time for the RMB to make a solid global financing currency and adopts the characteristics of an international reserve currency. Advancement within

those domains will eventually decide its place in the global monetary as well as financial framework.

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