

# RMB Internationalization: Exploring Trends and Implications

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**Abstract:** The aim of this paper is to provide a comprehensive analysis of the historical evolution of the internationalisation process of the RMB and to assess its current status in the global economy. At the same time, in light of the evolution of the current international monetary system, especially the key stages of the gold standard, the Bretton Woods system and the Jamaican system, it provides an in-depth exploration of the challenges of the times, such as exchange rate stabilisation and de-dollarisation, faced by the internationalisation of the RMB. The article focuses on the ten milestones of RMB internationalisation, detailing the collaborative efforts and achievements of East Asian economic powers such as ASEAN, China, Japan, and South Korea in promoting the internationalisation of the RMB. These achievements reflect the positive response to external economic developments and highlight the growing importance of the RMB in the international monetary system. The article analyses the positive role of the Belt and Road Initiative in promoting the internationalisation of the RMB. It has facilitated international economic exchanges and cooperation by simplifying the financing process. The article also provides an in-depth analysis of the many factors affecting RMB depreciation, such as trade wars. It reveals the wide-ranging impacts of these factors on various sectors, especially Chinese exporters. Based on this, the article emphasises the significance of preserving the stability of the RMB exchange rate as a crucial factor to be fully considered while advancing the internationalisation of the RMB. Lastly, the article proposes several constructive suggestions to further promote the internationalisation of the RMB, which offer valuable references for the future development of the international monetary system.

**Keywords:** Internationalization of the RMB; Economic growth; financial system.

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## 1. Literature Review

This paper explores the internationalisation of the RMB in the current monetary system, analyzing 'de-dollarisation' efforts and the limitations of the US dollar reserve system. It compares the internationalisation of the euro and yen, but lacks a comprehensive analysis of the current system and its linkage to RMB internationalisation. The paper argues that RMB internationalisation hinges on China's national power and status, citing Western theories. It also discusses the link between RMB internationalisation and de-dollarisation trends. However, further research is needed to deepen understanding and address offshore market risks.

## 2. Overview of the International Monetary System and Internationalization of the RMB

### 2.1. A brief overview of the internationalization monetary system

The evolution of the international monetary system can be traced through the gold standard, Bretton Woods, and the Jamaican system. The gold standard fixed exchange rates based on gold content, but was disrupted by WWI. Following WWII, Bretton Woods linked currencies to the US dollar and gold, but faced issues with the dollar's privileged position and rigid exchange rates, ultimately collapsing in 1971. The Jamaican system, introduced in 1976, implemented credit-based floating exchange rates. The modifications made include currency and reserve diversification, as well as the implementation of a hybrid exchange rate system. The

payment functions of the system are now robust, the currencies used are credible, and the system adheres to international financial norms.

### 2.2. Challenges of the current international monetary system and de-dollarization

The international monetary system is facing challenges, particularly the need for a stable monetary environment. Speculative capital can cause fluctuations in exchange rates, which can have a negative impact on the global economy. To address this issue, it is important to establish effective communication mechanisms that can reduce information asymmetry and stabilize exchange rates. The International Monetary Fund (IMF) plays a coordinating role in the international monetary system, but its effectiveness is often questioned. Another issue is the dominance of the US dollar in the international monetary system. This allows the US to exert power and influence over other countries, as well as raise the global inflation rate and reduce its own debt burden while inflicting losses on other countries. De-dollarization is becoming a focus for the international community. There is currently no international consensus on reforming the international monetary system, and there is also a lack of alternative 'safe assets' to compete with the US dollar. Although the international monetary system is still heavily reliant on the dollar, there is a gradual process of de-dollarization underway. Other major currencies, such as the euro, yen, pound sterling, and renminbi, do not match the US dollar in terms of their internationalization.

The evaluation results are as follows:

The internationalization degree of currencies (unit:%)						
	Global payment			Foreign exchange reserve		
	2014	2018	2023	2014	2018	2023
<b>US Dollar</b>	41.7	40.1	37.6	64.1	61.7	59.5
<b>Euro</b>	31.4	32.3	35.7	21.2	20.7	20.6
<b>Pound</b>	7.9	6.7	5.6	3.8	4.4	4.5
<b>Yen</b>	2.9	3.4	3.6	3.7	5.2	6.1
<b>RMB</b>	1.4	2.1	2.9	1.1	1.9	2.4

Chart 1: Evaluation of the internationalization degree of currencies  
Source: www.imf.org

Figure 1 shows the dollar's share in balance of payments and foreign exchange reserves has declined from 2014 to 2023, reflecting instability in its international position. However, the dollar remains dominant, indicating a slow and challenging de-dollarisation process. While de-dollarisation is emerging, the end of dollar hegemony seems distant. In the long run, the need for alternative payment and settlement mechanisms will grow, fostering international currency diversification.

### 2.3. De-dollarization and RMB internationalization

De-dollarisation is crucial for the global economy, and particularly significant for China. Currently, the United States dollar dominates the international monetary system and has a profound impact on the Chinese economy. Changes in U.S. monetary policy have led to an appreciation of the dollar and a return of capital to the U.S., putting pressure on China's capital and debt markets. Therefore, it is crucial to reduce dependence on the US dollar. In addition, United States financial sanctions threaten China's sovereignty and security, using the United States dollar payment system to impose financial embargoes and asset freezes. In response, China has actively promoted the internationalisation of the RMB. In the past decade, the international status of the RMB has increased, and although it still accounts for less than 5 per cent, the internationalisation process has accelerated and many breakthroughs have been achieved; the IMF has raised the weight of the RMB in the SDR, international investors increasingly recognise the RMB, and its role in cross-border payments and investment has become increasingly prominent.

## 3. Analysis Based on The Ten Milestones of The Internationalisation of the RMB

### 3.1. Chinese bonds and stocks included in international indices RMB assets become more attractive

Since 2019, Chinese bonds and equities have been included in key international indices, indicating that China's financial infrastructure and capital account convertibility have aligned with global standards. This integration enhances the RMB's global standing, attracting more foreign investors to China's financial markets. The inclusion of Chinese bonds in major bond indices marks a new era in global bond investing with profound implications for emerging markets and global asset allocation.

### 3.2. The RMB's share of global foreign exchange reserves reached a record high, surpassing the Australian and Canadian dollars

World - Allocated Reserves by Currency for 2022Q1

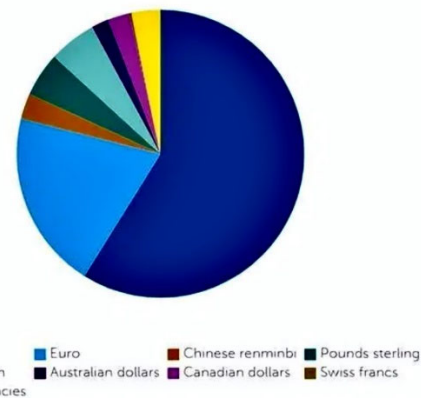


Chart 2: World - Allocated Reserves by Currency for 2022Q1

Source: Screenshot of IMF website

According to the IMF's "official currency composition of foreign exchange reserves (Cofer)" data released on 31 March local time, the RMB's share of global foreign exchange reserves rose to 2.79% in the fourth quarter of 2021, up from 2.66% in the third quarter of 2021, ranking fifth in the world. This is also the highest level since the IMF began publishing data on RMB reserves in 2016.

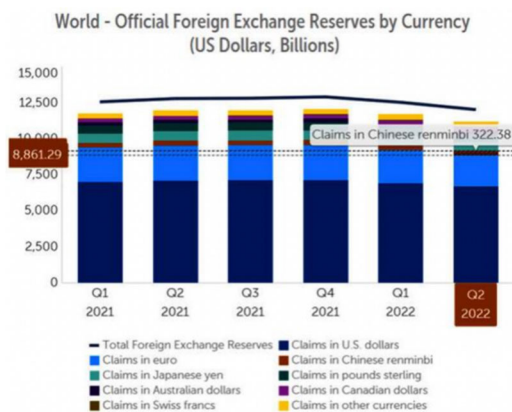


Chart 3: World - Official Foreign Exchange Reserves by Currency (US Dollars, Billions)

Source: Screenshot of IMF website

According to figure 3, renminbi reserves continued to grow, increasing by \$16.05 billion, indicating increased interest in renminbi assets by global central banks and the inclusion of the renminbi in the Special Drawing Rights of the International Monetary Fund, which reduces dependence on the United States dollar. In addition, the cross-border use of the RMB has surged to become the fifth largest payment currency in the world, and has increased the security of its use and reduced transaction costs.

### 3.3. Significant progress has been made in the full lifting of QFII/RQFII investment quota restrictions and the opening of capital accounts

The abolition of the QFII/RQFII investment quota

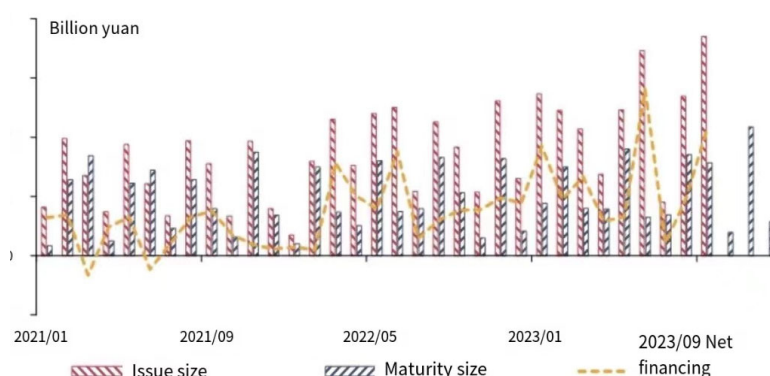


Chart 4: Issuance and maturity of offshore RMB bonds

Chart 4 shows the offshore RMB bond market's continued growth and expanded local government issuance. Issuance rose 35.5% quarterly and 50% year-on-year, with a financing scale up 37.31% quarterly and 101.83% yearly. This development boosts market scale, activity, and influence, aligning with global financial market trends. Offshore bonds offer financing channels and investment opportunities, promoting international monetary system diversification and global financial market integration.

RMB internationalisation and Pilot Free Trade Zone construction mutually enhance each other in several ways: trade settlement facilitation improves efficiency, widens investment and financing channels for overseas investors and Chinese enterprises, fosters financial market openness and innovation, introduces more RMB financial products and services, and jointly drives economic growth, internationalising the Chinese economy and boosting local economies.

### 3.5. Macao establishes offshore RMB market to promote the development of financial market infrastructure in the Greater Bay Area

The steady progress of Macao's offshore RMB market in the Guangdong-Hong Kong-Macao Greater Bay Area has enriched its financial market and boosted regional financial infrastructure. This facilitates cross-border trade, mitigates exchange rate risks, lowers transaction costs, attracts foreign investments, and enhances capital flows, investment, and

restriction significantly advances China's financial market opening. This enables easier access for foreign investors, enhances investment freedom, and boosts China's financial market's international appeal and competitiveness. Foreign capital influx will augment domestic capital supply, drive sustainable economic growth, foster market competition and innovation, and accelerate economic transformation. This reform deepens China's financial market openness and spurs global economic cooperation and development.

### 3.4. The internationalisation of RMB and the construction of pilot free trade zones are mutually beneficial

financing cooperation. It also elevates the financial market's efficiency and service quality. As a crucial hub for RMB internationalization, Macao's offshore market will bolster its internationalization stature. Swiftly establishing an offshore RMB market "Nasdaq" in Macao is pivotal for enhancing the Greater Bay Area's financial system and hastening RMB internationalization.

### 3.6. The opening up of the credit rating industry to meet the demands of international investors for diversified RMB asset allocation

The opening up of the credit rating industry is integral to the financial market's openness, as China's financial market internationalisation gathers pace. International rating agencies' entry attracts foreign issuers and investors, diversifies RMB asset allocation, and enhances the bond market's internationalisation. They also aid domestic investors' decision-making, enrich credit risk pricing and management services, and upgrade China's rating industry quality. S&P's independent risk assessment and top rating for a major bank subsidiary in China's bond market, the world's second largest, holds significant value.

### 3.7. RMB Overseas Fund Business Successfully Sets Sail to Strongly Support the Construction of the Belt and Road Initiative

Market size and growth rate of China's overseas fund industry from 2017 to 2022

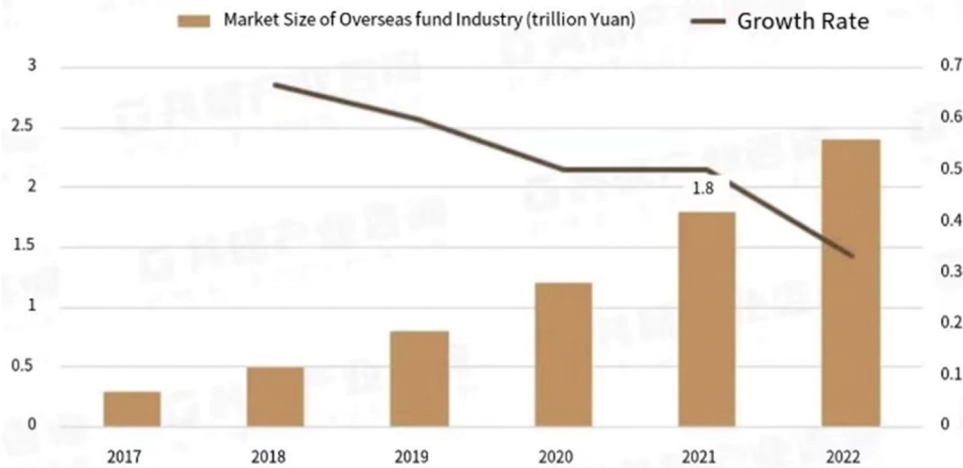


Chart 5: China Overseas Fund Industry Market Size and Growth Rate

Source: <https://www.bilibili.com/read/cv24661078/>

As China's RMB internationalises and overseas investment demand rises, the overseas fund industry has expanded significantly. In FY22, the overseas fund market grew by 33.3% year-on-year, surpassing RMB 300 billion by Q1 2019. This rapid growth reflects the increasing demand for RMB in international capital markets, recognised by the market. With China's economic growth and "Belt and Road" construction, the overseas fund business will further diversify RMB assets

and enhance financing solutions for the initiative.

### 3.8. A significant breakthrough was made in the issuance of panda bonds and "belt and road" RMB bonds by euro area countries for the first time

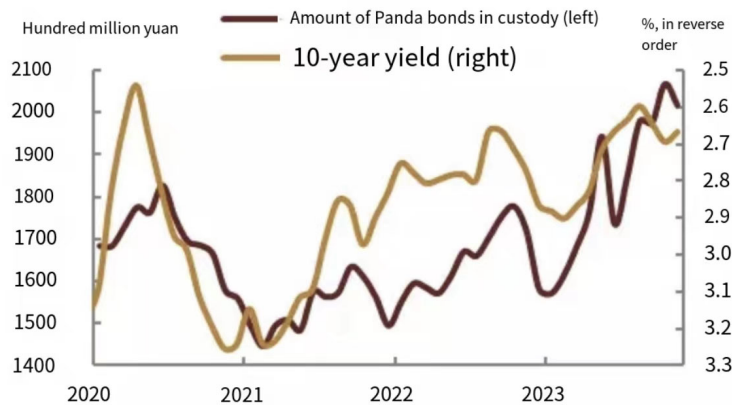


Chart 6: The issuance and custody of Panda Bonds and the trend of China's bond interest rate

Source: Wind, CICC Research Department

Figure 6 illustrates the remarkable growth of Panda bond issuance since 2023, reaching a record of over 150 billion yuan this year. As a symbol of China's international bonds, Panda bonds are intricately tied to RMB internationalisation. Recently, the RMB's payment and reserve functions have gained prominence, and its investment function has rapidly evolved. Anticipating future trends, Panda bonds are expected to cater to diverse financing needs and drive RMB internationalisation amidst global "de-dollarisation". Functioning as an international bond in the onshore market, Panda Bonds will facilitate the entry of overseas enterprises, enrich RMB assets, and foster a closed loop for international investment and financing.

### 3.9. RMB price test for iron ore trading contract

The world's largest iron ore producer adopts China's iron ore futures price as its trade reference, setting a precedent for futures-cash integration in the global iron ore market. Cross-border RMB settlement in commodity trading is pivotal to RMB internationalisation, strengthening its global standing, safeguarding economic security, participating in global governance, and fostering a fairer international order.

### 3.10. Central bank has made positive progress in digital currency to protect monetary sovereignty and legal currency status

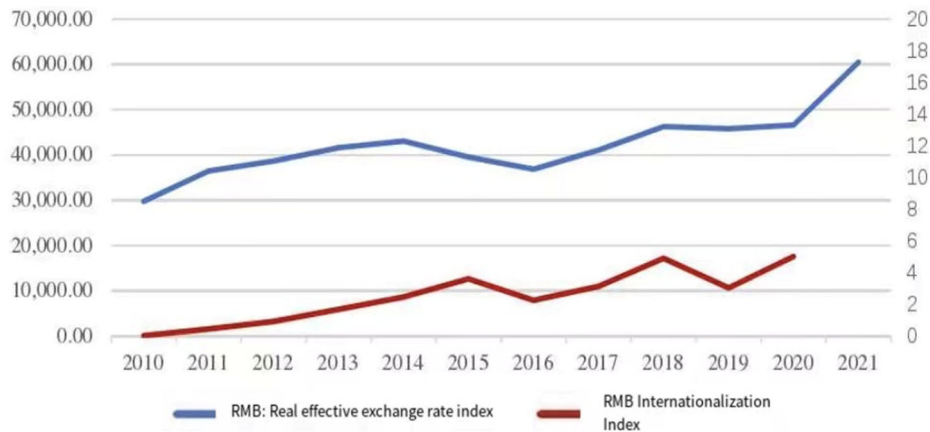


Chart 7: RMB real effective exchange rate index 2010-2022  
Source: International Monetary Fund

Figure 7 depicts China's trade volume's overall upward trend, despite a temporary decline in 2015-2016 due to global economic slowdown. In 2021, it reached \$6.05 trillion with a surplus, aligning with the RMB internationalisation index. Liang emphasizes China's economic transformation phase, where the central bank's digital currency is crucial. It should broaden application scenarios, enhance efficiency, cut costs, drive digital transformation, and optimize the entire industrial chain's operations. The PBoC aims to digitize the RMB by integrating the digital currency with electronic payments, pilot-testing, optimizing, and enriching its functions, while exploring the introduction of digital legal tender.

## 4. "The Belt and Road" Financing and RMB Internationalization

### 4.1. Achievements of RMB in countries along the the "The Belt and Road".

By June 2023, 13 Chinese banks established 145 first-tier institutions in 50 Belt and Road countries, while 6 insurance institutions set up 15 overseas branches in 8 countries, integrating the RMB into local economies. These institutions have supported "Belt and Road" construction and accelerated RMB internationalisation. The People's Bank of China has signed local currency swap agreements with 40 countries, totaling over 4 trillion yuan, covering 30 Belt and Road countries.

### 4.2. The positive impact of the "The Belt and Road" on RMB internationalization

Currency swap agreements reflect the recognition of the Chinese economy by countries along the route and promote the internationalisation of the RMB. Despite political challenges, the RMB serves as a strong support to facilitate financing, stabilise markets and enhance international status. China's growing economic strength provides new opportunities for the internationalisation of the RMB, expanding the region, strengthening the currency's function, becoming a key currency for international transactions and reserves, and demonstrating its global value.

### 4.3. Reasons for the success of RMB in the countries along the "The Belt and Road"

On October 1, 2016, the RMB officially joined the SDR

basket, ranking second only to the US dollar and euro, recognized by the IMF and linked to the BRI. Xu Mingqi's (2023) research delves into this. The dollar-dominated system disadvantages developing countries in financial flows, with capital mostly flowing to developed nations. The People's Bank of China's RMB currency swap bridges the capital gap for developing countries during financial turbulence, contributing to global financial stability. This explains the RMB's status in BRI countries.

### 4.4. Essence of currency swap between China and countries along the "The Belt and Road"

Currency swaps enhance local use and international reserve status of the renminbi, boosting foreign exchange reserves and financial institutions' acceptance of renminbi transactions. Swap lines are mainly used for market intervention or debt repayment, such as Argentina's IMF loan repayment. In special cases, counterparty central banks can negotiate with the PBOC for RMB loans to support China's trade and investment. These swaps provide short-term currency liquidity to Belt and Road countries, stabilizing their markets and promoting renminbi internationalization.

### 4.5. Doubts on the process of RMB internationalization

With regard to the study on the internationalisation of the RMB, it is inappropriate to equate the bilateral swap agreements between the People's Bank of China and the Belt and Road countries directly with trade and investment financing. In fact, the swap funds were used to support trade and investment. The exchange rate risk associated with currency swaps is not a cause for undue concern, as they are essentially short-term credits that are paid for and repaid in RMB, which helps to enhance the international status of the RMB. Therefore, currency swaps with countries along the Belt and Road are positive for the internationalisation of the RMB.

## 5. Suggestion of RMB Internationalization

The internationalisation of the RMB has a diverse impact on the world. International trade and investment are fostered

by it, transaction costs and risks are lowered, and global economic growth is boosted. Furthermore, it mitigates trade and financial risks, minimising foreign exchange and rate volatility, which is crucial for reducing global risks. This process elevates the RMB's status as a global reserve currency, reducing reliance on others and enhancing exchange rate flexibility. Furthermore, it facilitates the internationalization of currency and financial globalization, thereby enhancing the global status of the RMB.

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