

**INTERNATIONALIZATION OF
THE *RENMINBI***

YANG Mu & YAO Jielu

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Executive Summary

1. As the value of the U.S. dollar continues its downward slide after the 2008 financial crisis, the Chinese currency, the *renminbi*, has been speculated to be a new global currency in the making. Macroeconomic conditions are favorable for the *renminbi* to play a bigger role in the global currency regime.
2. However, Beijing has not set any goal for converting the *renminbi*'s into an international currency because of not only the incumbency advantage enjoyed by the U.S. dollar, but also the *renminbi*'s lack of an essential prerequisite to become a global currency – full convertibility of capital account.
3. The *renminbi*'s share in international foreign exchange reserves and its role in international financial transactions remain negligible; trade settlement in *renminbi* occurs mainly on the borders of China. Strictly speaking, the *renminbi* is still at the stage of regionalization.
4. Though the *renminbi* is still far from becoming an international reserve currency, China clearly states its interest in reforming the global currency regime by calling for a super-sovereign reserve currency based on the Special Drawing Rights of the International Monetary Fund, a basket of currencies of major economies.
5. Given the mismatch between China's trade prowess and its currency's limited role in international trade, the country has both great potential and strong motivation to promote its currency in trade settlement.
6. The lack of convertibility apparently precludes the *renminbi* from functioning as an international currency in financial markets. Nevertheless, removing capital controls prematurely could lead to a domestic banking crisis and exchange rate instability. Therefore, China has decided to internationalize its currency without fully opening its capital account.

7. Since December 2008, the People's Bank of China has signed bilateral currency swap agreements worth RMB803.5 billion with eight monetary authorities, which provided seed money for future cross-border trade transactions settled in *renminbi*.
8. The pilot scheme for *renminbi* cross-border trade settlement launched in 2009 was broadened in July 2010. The cumulative total of trade transactions settled in *renminbi* amounted to RMB506 billion in 2010, less than 3 percent of China's total trade.
9. Hong Kong played a leading role in settling trade transactions in *renminbi*, accounting for 74 percent of the total volume by the end of June 2010. Singapore ranked second, accounting for a significant share of 13 percent.
10. Indeed, China has been building the first *renminbi* offshore market in Hong Kong which has a well-developed financial system open to international investors, while still under Beijing's influence.
11. The *renminbi* deposits in Hong Kong leaped drastically from RMB895 million in February 2004 to RMB315 billion by the end of 2010, as a result of the widened scope of *renminbi* banking business in Hong Kong and the ongoing expectation of *renminbi* appreciation.
12. As the range of issuers has been widened, *renminbi*-denominated bonds issued in Hong Kong ("dim sum" bonds) have grown fourfold since 2007, totalling RMB40.7 billion in 2010. Meanwhile, low yields are driving down financing cost for issuers in the "dim sum" market.
13. The rise of *renminbi* offers Singapore an opportunity to improve its competitive edge as a global financial centre. How quickly could Singapore develop into an offshore *renminbi* market will largely depend on the country's ability to match its strength with China's strategy and its ability to tap first-mover-advantage in the next phase of *renminbi*'s internationalization.