INTERNATIONALISATION OF THE RENMINBI: DRIVEN BY GEOPOLITICS OR ECONOMICS?

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Synopsis in English, Chinese, French and Spanish

In recent years, the share of renminbi (RMB) settlement in China's cross-border payments has been rising due to the push by China's policymakers for the currency to be used more widely amid increased geopolitical uncertainties. The use of financial sanctions by the United States following the Russia-Ukraine conflict in 2022 and the "weaponisation" of the dollar have driven many countries to contemplate reducing their dependence on the US dollar. RMB internationalisation has also gained impetus given the elevated US interest rates since 2022, with more investors turning to the RMB for financing or refinancing. While the RMB has made progress in functioning as a "medium of exchange" in global markets, progress appears slow in its function as a "store of value" and "unit of account". Compared with China's share in global gross domestic product and merchandise trade, China's currency reserves as a proportion of global reserves and renminbi-denominated bonds or debt securities still remain low. In addition, RMB is rarely used as a reference rate in the determination of exchange rates. There is widespread consensus that the RMB will not supplant the US dollar anytime soon, given the inconvertibility of China's capital account and a relatively underdeveloped financial market.

***Chinese*:**

人民币国际化：地缘政治驱动还是经济考量？

近年来，由于地缘政治的不确定性攀升，中国决策者积极推动人民币更广泛地使用，使人民币结算在中国跨境支付中的比重增加。2022年俄乌冲突后，美国把美元当作“武器”实施金融制裁，促使许多国家考虑减少对美元的依赖。与此同时，随着美国利率的上升，人民币的国际地位备受重视，更多投资者转而使用人民币进行融资或再融资。尽管人民币在全球市场作为“交易媒介”的功能方面取得了进展，但在作为“价值储存”和“记账单位”的功能方面似乎仍动力不足。与中国在全球国内生产总值和商品贸易中所占的份额相比，中国的货币储备占全球储备和人民币债券或债务证券的比重仍然偏低。此外，人民币很少作为各国的参考汇率。人们普遍认为，鉴于中国资本项目的不可兑换性和相对不发达的金融市场，人民币不会很快取代美元成为国际最主要货币。

***French*:**

L'INTERNATIONALISATION DU RENMINBI : MOTIVÉE PAR LA GÉOPOLITIQUE OU L'ÉCONOMIE?

Ces dernières années, la part du règlement en renminbi (RMB) dans les paiements transfrontaliers chinois a augmenté en raison des des efforts conduits par les décideurs politiques chinois pour que la monnaie soit davantage utilisée dans un contexte d'incertitudes géopolitiques croissantes. Le recours aux sanctions financières par les États-

Unis à la suite du conflit russo-ukrainien en 2022 et la « militarisation » de la monnaie américaine ont poussé de nombreux pays à envisager de réduire leur dépendance à l'égard du dollar. L'internationalisation du RMB a également pris de l'ampleur compte tenu des taux d'intérêt élevés aux États-Unis depuis 2022, avec un nombre croissant d'investisseurs se tournant vers le RMB pour se financer ou se refinancer. Même si le RMB a progressé en tant que « moyen d'échange » sur les marchés mondiaux, les progrès semblent lents en ce qui concerne les fonctions de « réserve de valeur » et d'« unité de compte ». Comparées à la part de la Chine dans le produit intérieur brut et le commerce mondial des marchandises, les réserves de change du pays en proportion des réserves mondiales et des obligations ou titres de créance libellés en renminbi restent encore faibles. De plus, le RMB est rarement utilisé comme taux de référence dans la détermination des taux de change. Il existe un large consensus selon lequel le RMB ne supplantera pas le dollar américain dans un avenir proche, compte tenu de l'inconvertibilité du compte de capital chinois et d'un marché financier relativement sous-développé.

***Spanish*:**
INTERNACIONALIZACIÓN DEL RENMINBI: ¿IMPULSADA POR LA GEOPOLÍTICA O POR LA ECONOMÍA?

En los últimos años, la participación de la liquidación en renminbi (RMB) en los pagos transfronterizos de China ha aumentado debido a la presión de las autoridades chinas para que la moneda se utilice más ampliamente en medio de crecientes incertidumbres geopolíticas. El uso de sanciones financieras por parte de Estados Unidos tras el conflicto Rusia-Ucrania en 2022 y la "militarización" del dólar han llevado a muchos países a contemplar la posibilidad de reducir su dependencia del dólar estadounidense. La internacionalización del RMB también ha cobrado impulso dadas las elevadas tasas de interés estadounidenses desde 2022, y cada vez más inversores recurren al RMB en busca de financiación o refinanciación. Si bien el RMB ha logrado avances en su funcionamiento como "medio de intercambio" en los mercados globales, el progreso parece lento en su función como "depósito de valor" y "unidad de cuenta". En comparación con la participación de China en el producto interno bruto y el comercio de mercancías a nivel mundial, las reservas de divisas de China como proporción de las reservas globales y los bonos o títulos de deuda denominados en renminbi siguen siendo bajas. Además, el RMB rara vez se utiliza como tipo de referencia para la determinación de los tipos de cambio. Existe un consenso generalizado de que el RMB no suplantará al dólar estadounidense en el corto plazo, dada la inconvertibilidad de la cuenta de capital de China y un mercado financiero relativamente subdesarrollado.

Executive Summary

1. The renminbi (RMB) has now surpassed the Japanese Yen to become the fourth most used currency behind the US dollar, the Euro and the pound sterling. China's push to encourage yuan-denominated trade and countries seeking alternatives to the dollar has contributed to the rising share of the RMB in global payment settlements.

2. The RMB has also gained impetus due to the US Federal Reserve's rate hike campaign since March 2022, rising dollar borrowing costs and declining dollar liquidity. More borrowers have turned to the RMB for financing or refinancing given the high USD funding costs.

3. For developing economies, the RMB offers an alternative to the dollar in trade settlements in the event of a dollar liquidity crunch that would impact domestic funding conditions. Argentina announced in April 2023 that it will start to transact Chinese imports in yuan and utilise part of its currency swap with China to meet its payment obligations to the International Monetary Fund.

4. Amongst the BRICS countries, Brazil and China reached an agreement in early 2023 to trade in their own currencies, bypassing the need for the US dollar as an intermediary. Further, China and Saudi Arabia in November 2023 signed a three-year currency swap agreement worth RMB50 billion (US$ 7 billion) to boost the use of local currencies in trade and investment.

5. While the RMB is gaining traction in global payment settlement and trade finance, it is nowhere near supplanting the US dollar. It is far behind the dollar as a form of foreign reserves, an invoicing currency for trade and a store of value for non-resident investors.

6. There is also less liquidity to trade the yuan compared to the US dollar, which enjoys a more liquid market that makes hedging the dollar less costly and risky.

7. The dollar's dominance is sustained by complementarities between the different functions of an international currency. Firms typically borrow in the same currency in which they invoice their exports and receive payments, and central banks tend to keep as foreign reserves the same currency domestic banks and firms use for trade settlement and financial transaction.

8. To accelerate RMB usage, China is likely to continue to invest in the infrastructure for RMB payments, establish additional offshore RMB clearing banks and extend bilateral renminbi swaps with foreign central banks.

9. Some studies show that trade with and loans from China explain RMB cross-border transactions with members in the Belt and Road Initiative whereas the qualified foreign institutional investor schemes promote the use of the RMB among non-BRI members.

10. China's central bank digital currency (CBDC) may expedite efforts to internationalise the RMB. However, the widespread usage of the currency still depends on capital account convertibility and trust in the country's institutions like the rule of law. China's CBDC is unlikely to have a significant impact on the status of the US dollar as a reserve and safe haven currency.