

**THE EVOLUTION OF RENMINBI
INTERNATIONALISATION**

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Executive Summary

1. China has had ambitious plans for a greater international role for its currency, the Renminbi (RMB), since the beginning of the century. These plans accelerated after the global financial crisis in 2008-09. Some observers suggested that China's strict capital controls and the limited breadth and depth of its financial markets could pose roadblocks to the RMB's internationalisation.
2. Others predicted a significant role for the RMB, given the size of China's economy, its continuing rapid economic growth and role as the world's largest trading nation. They suggested that the RMB's growing international role, including its inclusion in the Special Drawing Rights basket of the International Monetary Fund in 2016, could pose a significant challenge to the US dollar.
3. Predictions of the RMB rapidly posing a serious challenge to the dollar on the international stage have yet to be realised. The US dollar continues to retain its dominance, but the RMB's role as an international currency is gradually growing.
4. The RMB constitutes 2.7% of global foreign exchange reserves, was used for 2.15% of global payments by end-January 2023 and on one side of 7% of all foreign currency trades in 2022. The corresponding US dollar shares were 60%, 40% and 88%. The RMB is now the fifth most widely used currency in the world.
5. In a bid to further enhance the international usage of RMB, by the end of 2022, China had signed bilateral currency swap agreements with the central banks or monetary authorities of nearly 40 countries and regions, including Singapore and the European Central Bank, totalling more than RMB3.7 trillion.
6. China recognises both the continued importance of RMB internationalisation to its own domestic and global economic ambitions as well as the fact that its efforts thus far have borne limited fruit.

7. The Russian invasion of Ukraine and the resulting sanctions imposed on Russia by the United States and many other developed countries have provided a fresh impetus to China's efforts to internationalise the RMB. The Russian sanctions have also led China to rethink these efforts and modify its strategy.
8. Until recently, China's efforts were largely focused on making it possible for foreigners to use the RMB. China is now ramping up efforts to make it not just possible, but also attractive for foreigners to use the RMB.
9. The RMB's role as an international currency will, undoubtedly, continue to gradually increase. However, displacing the US dollar from its role as the world's predominant currency is unlikely, at least in the foreseeable future.
10. The historical barriers to more rapid RMB internationalisation – capital controls, underdeveloped financial markets, limited confidence of foreigners in being able to access their RMB assets at will particularly in situations of stress, and concerns about government intervention in currency markets – still remain.
11. China will need to continue to take more policy steps to make the RMB more attractive to foreigners. Relative to the US dollar, international transactions in the RMB are also more expensive in terms of transactions costs, and Chinese policymakers will also have to find ways to overcome this disadvantage.