INTERNATIONALISATION OF THE RMB

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CHINA HAS BEEN PUSHING for the internationalisation of its currency, the renminbi (RMB), since the late-2000s. Ever since setting up the first RMB-denominated bond (also known as Dim Sum Bonds) market in Hong Kong in 2009, China has been building the financial infrastructure necessary to facilitate international transactions in RMB and to liberalise its capital account and capital markets. In 2015, China:

- Signed bilateral currency swap agreements with Surinam, South Africa, Chile, and Tajikistan, bringing the total number of such agreements to thirty-two.
- Set up RMB clearing banks in Thailand, Malaysia, and Chile, in addition to its twelve already established banks.
- Allowed more foreign investors to trade in its domestic, RMB-denominated stock market under its RMB Qualified Institutional Investor (RQFII, 人民币合格境外机构投资者) program.

In October 2015, China also launched the first phase of its Cross-border Inter-bank Payment System (CIPS, 人民币跨境支付系统). This system to clear cross-border RMB payments has been called a 'milestone of RMB internationalisation' by the People's Bank of China (PBOC, 中国人民银行), China's central bank. Prior to CIPS, payments to and from China were costly and slow to execute. Most had to be re-routed through one of the above-mentioned clearing banks, as China's national payment system is incompatible with the internationally used

China has pushed for the internationalisation of the RMB
Source: chinaausfocus.com

SWIFT system. With CIPS in place, the nineteen connected banks, nine of which are foreign institutions, can directly handle RMB transactions for cross-border trade, direct investment, financing and personal remittances. The *Financial Times* reports that the system currently only includes onshore entities, but that it will eventually allow offshore banks to participate as well, enabling offshore-to-offshore RMB payments as well as transfers in and out of China.

Another milestone was the decision by the International Monetary Fund (IMF) to include the RMB in its Special Drawing Rights (SDR) currency basket. To meet IMF's criteria, China pushed through multiple financial reforms in 2015. These included full liberalisation of interest rates and a reform of the RMB pricing mechanism. This last reform was especially praised by the IMF as 'a welcome step' because 'it should allow market forces to have a greater role in determining the exchange rate'. Apart from symbolising China's economic influence and continued integration into the world economy, the inclusion of the RMB into the SDR basket might lead to greater demand for RMB-denominated assets in the future.

According to a SWIFT report in January 2016, the RMB was the fifth most-used currency worldwide in December 2015 and even temporarily took fourth place in August, beating the Japanese yen. To put this into perspective, however, only 2.31 percent of all transactions were settled in RMB that month, making the currency only slightly more used than the Canadian dollar or the Swiss franc. Some foreign analysts believe that the recent increase in RMB usage is more the result of speculation than trade and investment. At the same time, a mixture of reforms, economic policy, and concerns about possible economic slowdown have caused major fluctuations in the currency's exchange rate. While the RMB was relatively stable during the first half of the year, it dropped 2.8 percent against the dollar in just three days after the PBOC announced it would reform the RMB's pricing mechanism. It dropped sharply again in December, making the latter half of 2015 one of the most volatile and bearish periods in the currency's history.

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