



The Red Bricked Road and the PBOzC

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I. Introduction

In recent years the economic giant known as China has begun to steadily introduce programs aimed at internationalizing its domestic currency. International currencies like the U.S. dollar, euro and pound sterling have always dwarfed the renminbi (also known as the redback) in international business transactions. However, in recent years China has encouraged yuan internationalization through a slow and methodical process. The reason behind these new governmental policies is that there is a plethora of incentives that drive the Chinese to attain a higher position on the international currency pyramid. In order to achieve these ambitions, the People's Bank of China must set clearly defined goals, ensure the international community that the renminbi should be an internationalized currency, and implement new institutional changes in its current economic system. What are the goals and motivations of the Chinese government in the quest for internationalization? And finally, where does the People's Bank of China see its role in the current international system? The story of RMB internationalization is similar to the story of Icarus and Daedalus - while the PBOC has seen different levels of success in some initiatives, others flew too close to the sun and failed.

II. What is an International Currency?

What differentiates an international currency from other forms of liquidity? While the functions of money stay the same between domestic and international currency (i.e. unit of account, store of value and a medium of exchange) the latter has significant effects on the international political economy because nations gain power and prestige when their currency is used internationally. An international currency grants the country of origin economic powers such as financing balance of payment deficits (BOP), coercive economic powers that limit unwanted challenges by rising powers, and monetary dependence of periphery states. The ability of a state to finance a BOP deficit is a substantial advantage in both international trade and finance. This power grants nations the ability to delay or deflect BOP adjustment. In order to delay deficit adjustment, a nation must have the ability to amass large liquidity assets. In the case of economic giants such as China, large foreign reserves, the ability to borrow currency, and consumer confidence allows the People Bank of China (PBOC) to finance deficits.

In addition to the power to delay, the second capability is the power to deflect. The deflection of BOP adjustment enables economic giants to pass issues of debt to other nations. Deflection ensures that states with internationalized currencies avoid adjustment and deflect the burden of adjustment to others. In the case of China, if certain macroeconomic adjustments are too painful- they can pass the adjustment onto neighboring countries such as Vietnam or Thailand.

The power to delay and deflect BOP adjustment is invaluable, but the capacity to influence the actions of foreign actors is critical. The development of currency blocs enables regional economic hegemony to pursue and reap the benefits of leadership roles, manipulate resources,

and punish uncooperative partners. To build a currency bloc, China needs to provide enormous sums of liquidity in the form of USD, euro and RMB-denominated assets. A regional leadership role like this is critical to China's development of the RMB as a legitimate international currency.

III. What are China's Motivations?

Chinese foreign policy is multifaceted and complicated but one question Beijing has been asking for years now is - how do the Chinese challenge U.S. monetary power without instigating economic or military retaliation? In order to achieve its goals, the Chinese government has begun to create a series of international institutions, such as the Asian Infrastructure Investment Bank (AIIB) and the Belt and Road (BRI) initiative, in the interest of expanding the influence of the RMB and strengthening regional ties.¹ Under the leadership of President Xi Jinping, the renminbi has appeared on the international stage as a potential challenger to the USD.

The RMB is utilized as an instrument of influence to challenge U.S. policy regarding the Asia-Pacific region as well as Africa and the Middle East. Beijing's proximity to strategic target states grants it the ability to actively participate in economic activity with them. In addition to its geographic proximity, the Chinese central bank can utilize trillions of dollars worth of dollar-denominated reserve assets to finance deficit countries; and create an asymmetric relationship of monetary dependence². Generally speaking, the weaker the recipient state, the more susceptible it is to monetary pressure from Beijing, which can include: agreeing to convert debt owed to China into equity; giving contracts to Chinese state-owned enterprises and adopting Chinese technological and engineering standards as default standards (Feigenbaum).³

Although it is true that China may potentially take advantage of developing states, there are a plethora of benefits for target states that may like to one day become a partner of an international RMB bloc. Hypothetically speaking, one of China's long term goals may be to develop a currency bloc that can rival America's dollar. In order to achieve this, China's short term policy goal is to gain the support and friendship of East Asian countries and others through the supply of liquidity governmental policy. Additionally, China also understands that it cannot undermine American monetary power by engaging in a currency war. In the book "Economic Warfare", Yuan - Li Wu warns against utilizing currency war as a means to dethrone an international currency. Wu says "deliberately selling the enemies currency ... [will affect the home country by] will stimulate price inflation, dissipate reserves and stimulate capital flight."⁴ Accordingly, China moved away from the stick and more towards the carrot.

Under those circumstances, China needs to entice target states by providing liquidity, creating infrastructure and establishing a new set of international institutions. Consequently, the Chinese government created the AIIB with the intention of providing large amounts of capital. To emphasize the financial cost of this large task, the Chinese central bank would need to provide

¹ <https://www.aiib.org/en/policies-strategies/public-information/introduction/index.html>

² *Currency and Coercion: The Political Economy of International Monetary Power* Pg. 308

³ *The Evolution of China's Engagement with International Governmental Organizations: Toward a Liberal Foreign Policy?* Pg 701

⁴ "Economic Warfare" Yuan - Li Wu

approximately \$8 trillion USD in order to build adequate infrastructure in the Asia-Pacific region (Olivia).⁵ The AIIB has also garnered the attention of traditional U.S. allies like South Korea, Great Britain, and Australia. The AIIB is so enticing that Great Britain and Australia, long time American allies, signed onto the agreement as founding members.

The AIIB will gain access to private funding and will tap private resources. This is due in part to the Chinese consumer and its populations consumption habits. As of 2018, China's M1 money supply (physical currency, coin, demand deposits and other checkable deposits) is approximately 8.1 trillion USD⁶ while Chinese personal consumption is approximately 3.5 trillion USD. According to macroeconomic principle in a closed economy, aggregate savings is equal to aggregate investment. As a result of frugal Chinese consumption, private savings could potentially translate in investment and liquidity. In effect, private funding would allow for the mobilization of savings throughout member states and improve the quantity of funding for infrastructure projects (Feigenbaum). In the initial stages of the AIIB, the majority of financing will be done in USD because of China's large reserve assets. But, the gradual integration of RMB into international currency circulation would allow China to push the RMB onto the world stage as East Asia's main currency and strengthen China's legitimacy as a regional hegemon⁷.

In addition to the AIIB's ability to help promote the RMB as a potential successor to the USD, China has also begun introducing the currency into a handful of global financial markets. The largest financial market with the largest share of RMB is Hong Kong. Ultimately, the continued circulation of RMB will result in a loss of capital control and monetary sovereign policy, because RMB will be traded on the international currency market as a legitimate international currency.⁸ For decades economists struggled to find a fine balance between three major centerpieces of macroeconomics. The three components are sovereign monetary policy, fixed exchange rates, and free capital flow. The classic dilemma is that one nation can possess any two of the three characteristics but cannot possess all three. By and large, the Chinese have created their own version of the unholy trinity and it resembles a scalene triangle. Beijing is attempting to control all sovereign monetary policy, fixed exchange rates and free capital flow altogether. However, these controls could potentially fall apart and the renminbi would be at the mercy of the market. Exchange rates would most likely become more volatile than they have in the past because the PBOC will not be able to successfully intervene in the international market or control capital flow.

Not only is this new found monetary power useful to the Chinese but it is also useful to potential members of a hypothetical monetary bloc. Member states piggyback on the stability, credibility, and prestige of the system as a whole. Currency arrangements usually involve expanded access to reserves or other monetary mechanisms. Hypothetically speaking, members of the AIIB could

⁵ "U.S. – CHINA COMPETITION IN ASIA PACIFIC REGION: THE AIIB AND THE NEW GLOBAL ORDER?" Isill Park. March 2016

⁶ China's M1 Money Supply 1991 - 2018 FRED St. Louis

⁷ *Power Transitions and International Institutions: China's Creation of the Asian Infrastructure Investment Bank*. Liam Genarri. March 2017

⁸ *Currency and Coercion: The Political Economy of International Monetary Power*. Jonathan Kirshner Pg. 279

turn to bank for instructions for long term economic growth, the AIIB's mission would be similar to that of the World Bank's. Additionally, smaller states fall under the economic protection of the bloc leader (Cohen).⁹ This means that smaller states would be less susceptible to currency manipulation and systemic disruption by outsiders. Lastly, another major advantage in maintaining membership status is access to new markets. With the abundance of increased infrastructure, capital and liquidity provided by the hegemon, target states would experience an increase in economic output and world trade. Increased accessibility to the market means that member states would have the ability to export goods and services to different member states.

In conclusion, the Chinese government has a plethora of options available to it in its promotion of an international currency. The best policy choice going forward would be to establish monetary dependence in developing economies around the world. Furthermore, this monetary dependence could potentially create a currency bloc with China as its leader. The RMB bloc would utilize China's national currency as a form of liquidity and finance in the region, and that would result in an increased international confidence and volume of globally circulated RMB denominated assets. Overall, the benefits of producing the most transacted international currency in the world far outweighs the costs that the leader, or the periphery states, need to make in order to guarantee the internationalization of the redback. Going forward, China's main concern would be addressing U.S. currency power in the region. The power of the American dollar is still exponentially greater than the RMB, but an ever increasing BOP deficit and inflation rate could result in the ascension of a new international currency and a new economic powerhouse.

IV. What has the PBOC done in Order to Obtain Internationalization?

In the early stages of internationalization, the Chinese government introduced RMB pilot programs in an effort to accelerate the internationalization process. In 2009, Beijing established the dim sum bonds market in the city of Hong Kong and expanded Cross-Border RMB Settlement pilot programs in an effort to establish liquidity for the CNH (Hong Kong RMB). Since then, the CNY (Mainland RMB) has gradually climbed the currency pyramid and now is the 5th most traded global currency - CNY accounts for 2.2% of all global transactions.¹⁰ On 17 August 2010, PBOC issued a policy to allow central banks, RMB offshore clearing banks and offshore participating banks to invest their excess RMB in debt securities, in onshore Interbank Bond Market. In October 2010, China further opened up both FDI and ODI in RMB (Pilot RMB Settlement of Outward Direct Investment) and nominated Xinjiang as the first pilot province (which in early 2011 expanded to 20 pilot areas). The scale of the offshore renminbi (CNH) market is still limited at the moment, with offshore renminbi deposits (around ¥1.5 trillion, of which 70% are in Hong Kong) only about 1% of that onshore (around ¥100 trillion), which is much lower than the ratio of 30% of offshore versus onshore US dollar deposits.¹¹ The average daily turnover of offshore renminbi foreign exchange market (CNH) is about US\$20 billion by the end of 2013. On November 17 of 2014, synchronized with the Shanghai-Hong Kong Stock Connect debut, the HKMA lifted the daily yuan conversion cap (¥20,000). China Interbank Bond

⁹ *Currency Power: Understanding Monetary Rivalry*. Jonathan Kirshner Pg. 197

¹⁰ "RMB internationalisation: Perspectives on the future of RMB clearing" Society for the Worldwide Interbank Financial Telecommunication (SWIFT). March 2018.

¹¹ People's Bank of China Announcement No. 20 of 2003

Market gave access to a broader group of international investors. In a three year period from 2014 to 2017, the total foreign holdings of domestic debt securities in CIBM have increased from RMB 842.5 billion to RMB 1,147.4 billion (125 and 171 million USD). Bond connect establishes a settlement link between onshore and offshore central securities depositories.¹² Through bond connect, Hong Kong becomes a convenient window for overseas investors to gain access to the mainland bond market. This further reinforces HK's position as an offshore RMB center and fosters an ecosystem of onshore and offshore RMB products around Bond Connect, strengthens HK's roles as an international financial center and its intermediary function for capital flows into and out of the mainland. Hong Kong remains the largest clearing center for RMB with 75.68% activity share.

A major change in the structure of the Chinese stock markets was underway since the Shanghai-Hong Kong Stock Connect was launched. On 10 April 2014, the China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission (SFC) made a joint announcement to approve, in principle, the development of the pilot program (Shanghai-Hong Kong Stock Connect) to establish mutual access between mainland China and Hong Kong stock markets. Seven months later, the program was officially launched on 17 November 2014. Shanghai-Hong Kong Stock Connect provides a cross-boundary investment channel between the Shanghai and Hong Kong stock markets so that investors in each stock market can trade stocks listed in the other market through the local clearinghouse and brokers. This is a landmark event in the reforms of the Chinese stock markets and it is able to relax restrictions and reshape financial structures of both the Chinese and Hong Kong stock markets. For the first time, Shanghai-Hong Kong Stock Connect is able to provide a feasible, controllable and expandable channel for mutual markets access between mainland China (Shanghai) and Hong Kong for a broad range of investors, paving the way for further opening up of the Chinese financial markets and RMB internationalization. This pilot program was expected to significantly increase the capital flow between the Shanghai and Hong Kong stock markets in both directions given that the Chinese mainland investors will have the opportunity to invest in the major companies listed on the Hong Kong Stock Exchange. On the other hand, Hong Kong and international investors will get access to the Shanghai A-share market in a less restrictive manner than ever before. This arrangement is expected to lead to both outward and inward financial markets liberalization and enable intensive interactions between the Shanghai and Hong Kong stock markets.

¹² "RMB internationalisation: Perspectives on the future of RMB clearing" Society for the Worldwide Interbank Financial Telecommunication (SWIFT). March 2018.

Table I: RMB INTERNATIONAL CLEARANCE BANK ACTIVITY SHARES IN 2017

RMB clearing centers	Activity Shares in 2017	Key takeaways
Hong Kong	75.68%	Hong Kong remains the largest RMB clearing center in the world
UK	5.59%	The RMB share as international payments currency is 1.61 percent when looking at domestic and cross-border payments. The activity share is lower (0.98 percent) if looking at crossborder payments only and excluding intra Eurozone payments.
Singapore	4.41%	RMB is the #1 currency with respect to currency pairs not settled in CLS (CLS bank is the world's leading provider of FX settlement services.)
Korea	2.99%	Twenty two Chinese banks are on SWIFT gpi, making RMB payments faster, transparent in terms of fees, and fully traceable *SWIFT GPI - is a quantum leap to improve speed, security and transparency issues in payment processing standards which is now being used by 165 member banks, globally.
US	2.59%	As of December 2017, the prominent role of the CNY/USD pair has not changed: 97.08 percent of RMB trading is against the USD and there is no substantial liquidity in any other RMB pair
Taiwan	2.19%	80.47 percent of payments where the ultimate beneficiary is in China or Hong Kong are in USD
France	1.55%	

With the launch of Shanghai-Hong Kong Stock Connect, eligible Chinese mainland investors can purchase eligible shares listed on the Hong Kong Stock Exchange (HKSE) via their own local brokers, while Hong Kong and international investors were to be able to purchase eligible shares listed on the Shanghai Stock Exchange (SSE) through their local brokers as well. In terms of the eligible stocks, only certain stocks in the Shanghai A-share market were to be included in Northbound Trading of Shanghai-Hong Kong Stock Connect at the initial stage. Other products like bonds, exchange traded funds (ETF), B shares and other securities were not included at this stage.¹³ While China has made enormous efforts in promoting risk prevention and asset management in onshore CNY, Beijing is struggling to provide the open market environment that is necessary to the promotion of an internationalized currency.

V. What is the PBOC's Plan to Improve Consumer Confidence?

In addition to currency convertibility outside of China, access to RMB accounts in both foreign and domestic banks will enable foreign governments and market actors to hold the RMB as a reserve currency, investment asset and currency of payment. However, the RMB is still not a significant reserve asset for large central banks like the European Central Bank. The European Central Bank, holds approximately \$57 billion in convertible foreign reserve assets. Of those foreign reserve assets, the RMB is \$527 million, or approximately 0.1%.¹⁴ Undoubtedly, the ECB's conversion of USD into RMB was more of a show of good faith to the Chinese rather than a serious diversification of foreign reserve assets. The hesitation is due in part to the willingness of the PBOC to intervene through open market operations and other macroeconomic tools to ensure a favorable balance of trade. In order to gain the confidence of central banks and private commercial banks, the PBOC needs to promote market-oriented interest rate reform. International banks will not utilize the RMB unless they can directly invest in China and produce profits in the primary and secondary markets. Chinese authorities understand this concern and have supported the creation of offshore accounts aimed at attracting international investment in a limited capacity through clearance banks located in Hong Kong and elsewhere. International investment and settlement programs like the Shanghai-Hong Kong Stock Connect and China International Payment System have been limited in their success to attract investors and circulate the RMB globally.

Altogether, Chinese economists believe that RMB internationalization can take anywhere from 20-30 years to complete. In essence, there are three main dimensions which help determine whether a currency is internationalized, and these dimensions, in turn, raise various questions which are in need of answers. The first dimension is whether or not trade can be carried out in the currency. As the world's largest exporter, it is safe to say that the RMB is used as a unit of invoices and settlements in international business transactions. Foreign central banks have facilitated means of payment using RMB. As of 2019, over 39 separate economies, including major emerging markets such as Brazil, Argentina, South Korea, and Russia have signed currency swap agreements with the Chinese government. The sizes of these swap agreements vary considerably. For example, South Korea has agreed to a swap arrangement of 360 billion yuan (\$58 billion USD). Be that as it may, the biggest swap agreement, 400 billion yuan (\$65 billion USD) was assigned with Hong Kong, the premier clearing revenue for the Chinese

¹³ Financial Assessment of New Asset Management Industries in China. JP Morgan. January 2019

¹⁴https://www.ecb.europa.eu/stats/balance_of_payments_and_external/international_reserves/html/index.en.html

economy.¹⁵ Xi Jinping's economic planners understand that China has a strong advantage in international trade and can utilize that leverage in a positive way for the internationalization of the RMB.

Among other innovations aimed at promoting RMB use internationally, major financial markets like Paris, Frankfurt, and London have introduced direct trading between local currencies and the yuan. Every financial center is assigned a designated clearing bank where these transactions may take place. Additionally, to the expansion of international trade, the PBOC has introduced CIPS in order to promote payment and cross-border trade. In essence, CIPS provides controlled cross-border access to the onshore yuan (CNY) clearing system for use in offshore and cross-border CNY payments, so that offshore yuan (CNH) settlement can access onshore liquidity directly.¹⁶

The second dimension focuses on is whether or not investment can take place in the redback and whether or not other countries can view the currency as a reserve asset. Firms will not invest in a country where profits margins are ambiguous and they are unable to gain profit. As of April 2018, and for this reason, the PBOC has introduced the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions, a new set of regulatory legislation that has restructured the asset management industry in China. The new Financial Stability and Development Committee (FSDC) issued these rules in order to protect investors, mitigate financial risk, and simplify products. The new rules came into force on 27 April 2018. As of now, all newly created Asset Management Products (AMPs) must comply with the rules; while existing AMPs have until the end of 2020 to be fully compliant. The new regulations by the Chinese authorities signal a substantial change in the operation of financial institutions on the mainland and Hong Kong. Many private entities like corporations, mutual funds, and hedge funds need to adapt and rethink their structure for liquidity management in China. In the past, China's major drive for investment revolved around the banking industry dealing primarily with assets from the secondary economy.

Between March of 2015 and September of 2017, the volume of financial assets peaked in China, growing from CNY 54.2tn to CNY 107.6tn (~8 trillion USD and 12.3 trillion USD respectively). I believe that this metric holds relevance because investment in the financial sector is essential to China's goal of internationalization. By the end of December 2017, Chinese authorities realized that they were dealing with an influx of financial assets that represented approximately 93% of China's GDP.¹⁷ Ultimately, the government created four financial regulators: the central bank – the People's Bank of China (PBoC); the China Banking Regulatory Commission (CBRC); the China Insurance Regulatory Commission (CIRC); and the China Securities Regulatory Commission (CSRC).¹⁸ Regulatory oversight leads to division amongst the regulators and eventually, the Financial Stability and Development Committee was created, as a tool to harmonize the regulatory environment surrounding securities and financial assets. On a more positive note, some of the funds currently invested in shadow banking products may well be re-

¹⁵ Currency Power: Understanding Monetary Rivalry. Benjamin Cohen Pg. 224

¹⁶ RMB Towards Internationalization. Siwei Cheng. Pg. 159

¹⁷ Financial Assessment of New Asset Management Industries in China. JP Morgan

¹⁸RMB Towards Internationalization. Siwei Cheng. Pg. 321

invested in bank time deposits and certificate of deposits. In addition, the new rules allow banks to set up their own asset management subsidiaries.

The third dimension is increased international user confidence in the renminbi. In order to improve confidence, the PBOC needs to liberalize its exchange rate regime. Historically speaking, China utilized a pegged exchange rate system with the U.S. dollar as its anchor. In a contemporary setting, the PBOC has created the Flexible Exchange Rate target zone (EXR) system. The range of EXR fluctuations set by monetary authorities who intervene in forex markets in order to maintain EXR rates within a set range. There are two components to this system - the hard target zone and the soft target zone. The hard target zone enables the PBOC to enjoy relatively stable exchange rates, because the PBOC utilizes market intervention (foreign exchange markets) to keep the RMB within a certain boundary of exchange. The monetary authority will not allow the RMB to appreciate or depreciate past a certain point without needing to interfere in the market¹⁹. Soft target exposes the RMB to supply and demand of international markets - monetary authorities cannot intervene in the regime and exchange rate is determined according to BOP deficits and domestic international economic conditions. However, the benefits associated with the EXR like RMB stability and for exchange rate adjustment. In essence, Beijing enjoys both a fixed and floating exchange rate simultaneously.

Although China has made great strides in increasing guidelines and safety nets for asset management and secondary markets- Beijing still needs to push more liberal policies favoring free and open markets. Advanced economies are suspicious of the RMB's potential validity as an international currency because the monetary and fiscal authorities are effectively one and the same. Without the establishment of an independent central bank, the RMB will continue to play second fiddle to more established currencies like the USD, euro, and sterling. The liberalization of the RMB exchange rate would allow the free market to decide the price of the yuan, but the Chinese government is not ready for this change nor is it eager to restrict capital controls.

VI. How Effective is China's Internationalization Framework?

One of the by-products of currency internationalization is convertibility of any currency within and outside of the country of issue. In essence, a convertible currency refers to the right of foreign nationals or Chinese to convert their currency into or out of the domestic currency based on current exchange rates. Currency convertibility can be divided into three major subsets: fully convertible currencies place no restrictions on the amount of currency that can be traded on the international market (e.g. the U.S. dollar), partially convertible currencies have certain restrictions placed that limit their circulation and tradability, and finally, there are non convertible currencies. In general, financial pitfalls and insufficient foreign reserve assets force many countries to impose restrictions on the amount of currency that can be traded. In order for the RMB to be truly effective as an international currency, the monetary authority of the PBOC needs to act independently of Beijing's government. However, their codependence on one another stymies effectiveness for both international users and domestic ones.

¹⁹ RMB Towards Internationalization. Siwei Cheng. Pg. 108

As of December 2017, Chinese authorities have limited overseas bank withdrawals to RMB100,000 per year (\$15,400USD) in an attempt to stymie foreign exchange purchases by its citizens and preserve foreign exchange reserves. As a result of stricter capital controls on the convertibility of the RMB, implemented in November of 2017,²⁰ China's foreign exchange reserves rose throughout 2017. In that year alone the Chinese government had 10 consecutive months of foreign exchange reserve gains. Simultaneously, these new capital controls had a negative effect on the outbound total credit to private non-financial sector. Credit is provided by domestic banks, all other sectors of the economy and non-residents. The "private non-financial sector" includes non-financial corporations (both private-owned and public-owned), households and non-profit institutions serving households as defined in the System of National Accounts 2008.²¹ The reason why I believe investment in the private non-financial is an important metric to RMB internationalization is because of the frugality of China's consumer markets. The less consumption taking place in a domestic economy, can potentially translate to higher levels of domestic savings.

Table II. TOTAL CREDIT TO THE NONFINANCIAL SECTOR, ADJUSTED FOR BREAKS IN CHINA 1997-2017



According to the Bank for International Settlements, the percentage of China's total credit to the private non-financial sector for China, Q1 of 2017 was 211.1% of GDP. By Q4 of the same year, China's private non-financial sector was 208.7% of GDP.²² Overall, the partial convertibility of the RMB has been increased, with respect to the development of total credit to private non-financial in terms of GDP percentage the annualized rate of Q4 2017 and Q1 2018 was a 10.80% increase. Overall, convertibility of the RMB outside of China is still limited because of the

²⁰ People's Bank of China Annual Report 2017

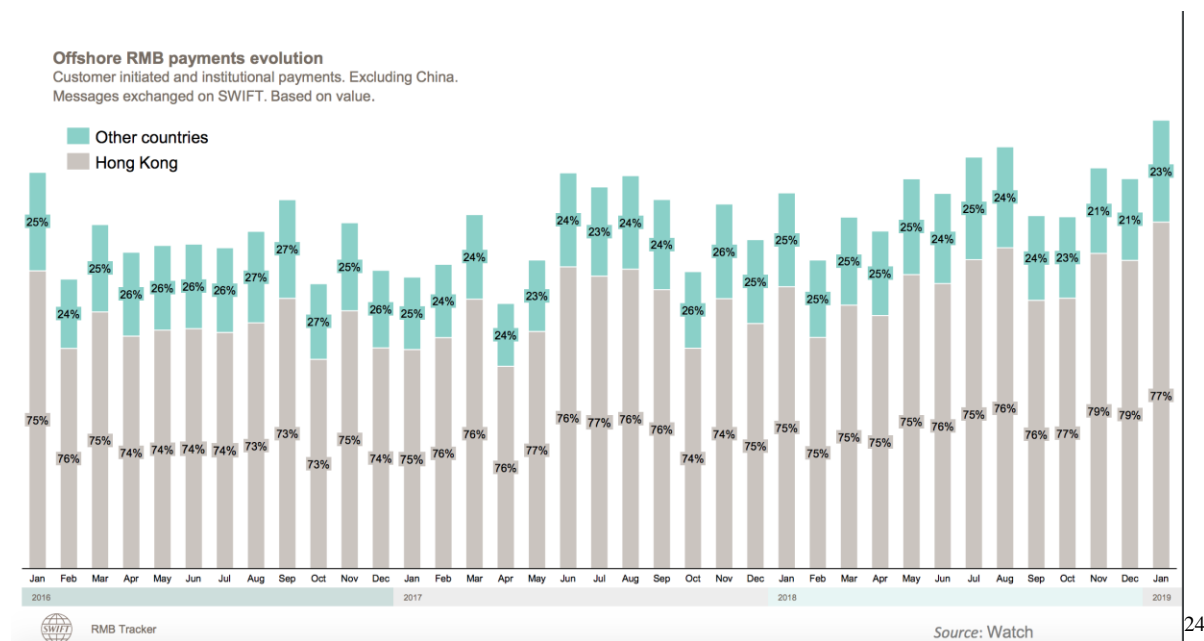
²¹ Bank of International Settlement via FRED St. Louis

²² FRED Total Credit to Private Non-Financial Sector, Adjusted for Breaks, for China 1990 - 2017

PBOC’s determination to control capital flow and this issue of convertibility makes international institutions and central banks hesitant to hold redback reserves.

Beijing is pushing RMB internationalization through financial institutions and global trade but the Chinese financial market needs to develop further in order to compete with other global financial centers. The three major financial centers with the largest market capitalization in China’s economic sphere are Shanghai, Hong Kong and Shenzhen (\$4.9 trillion, \$3.8 trillion, \$2.2 trillion respectively).²³ If we compare Chinese market capitalization with other major financial institutions like the New York Stock Exchange, NASDAQ, and Japan Exchange Group (\$22 trillion, \$10 trillion, and \$5.7 trillion) - the Chinese financial sector would struggle to compete against well-established centers of finance. Even now China is struggling to meet the quotas of the Shanghai Free Trade Zone, Shanghai - Hong Kong Stock Exchange and China’s International Payment Service (CIPS).

Table III. OFFSHORE RMB PAYMENTS FROM JAN. 2018 – FEB. 2019



The drop in the volume of globally circulated RMB denominated assets from July of 2018 to February 2019 reflects the decline of RMB as a currency of international payment throughout the world. Key offshore centers such as Taiwan and Hong Kong have seen declines in RMB deposits according to South China Morning Post. The reasoning behind this is due to monetary and fiscal policymakers in Beijing and the PBOC as well as new forms of direct investment into Mainland China. Additionally, experts from the Society for the Worldwide Interbank Financial

²³ Global Financial Sectors Index. 21. Z/Yen Group March 2017

²⁴ Offshore RMB payment evolution Feb. 2019, SWIFT

Telecommunications (SWIFT) have said that the Chinese government's policies to curb capital outflows have incited concern over RMB depreciation and could potentially hold back RMB internationalization in the short term²⁵.

In January 2019, the RMB retained its position as the fifth most active currency for domestic and international payments by value, with a global share of 2.15%. Overall, RMB payments value increased by 15.21% compared to December 2018, whilst in general all payments currencies increased by 11.04%. In terms of international payments only and excluding payments within the Eurozone, the RMB ranks eighth with a share of 1.24% in January 2019.²⁶

VII. Conclusion

In conclusion, there are certain aspects of RMB internationalization that excite potential investors as well as China's trading partners. Beijing has made substantial steps in promoting the internationalization of the yuan through new Asia-Pacific international institutions like the AIIB. Additionally, international trade has also seen an increase in RMB denominated and cross-border payment systems. However, under the current circumstances of weak user confidence for commercial and private banks, a reliance on capital controls by Beijing and the PBOC, and a lackluster volume of globally circulated RMB denominated assets, it is safe to say that the RMB is still early in its long march towards internationalization. Beijing and the PBOC are pushing internationalization slowly and methodically. I believe that they will continue this trend until it is evident that China has a legitimate opportunity to overtake the yen and pound sterling. Until then, China will focus on domestic economic issues rather than an internationalized global currency for widespread use.

²⁵ Society for the Worldwide Interbank Financial Telecommunications RMB Tracker Jan. 2019

²⁶ SWIFT RMB tracker 2019