Some Observations and Thoughts on RMB Internationalization[1]

Huang Qifan[2] CF40 Advisor

Abstract: *In recent years, the internationalization of RMB has accelerated, yet it still does not fully match China's position in the global economy. China's efforts to promote RMB internationalization are not aimed at replacing the US dollar's global status. Instead, RMB internationalization is an inevitable choice in the context of China's more open and progressive economic development. It is also necessary to maintain the stability of global industrial and supply chains. Achieving capital account convertibility is a crucial step toward broader financial openness, but it requires the RMB to gain its rightful status.*

To further promote RMB internationalization and accelerate the development of offshore RMB markets, the following measures can be taken: first, continue to promote the use of RMB for cross-border trade settlement and pricing. Second, further improve services to support cross-border RMB settlement for emerging business models such as cross-border e-commerce. Third, continue expanding openness to provide more convenient investment and financing services for both "bring in" and "go out". Fourth, accelerate the development of the offshore RMB market, continue leveraging Hong Kong's role as the offshore RMB hub, further diversify RMB products, and provide better targets for offshore RMB investment and financing, so as to support the use of RMB in the RCEP region.

The report to the 20th National Congress of the Communist Party of China proposed the orderly promotion of RMB internationalization. Today, I would like to share some of my thoughts and insights on this topic for your reference.

First, while the pace of RMB internationalization has accelerated in recent years, it still does not fully correspond to China's position in the global economy.

In recent years, RMB internationalization has made significant progress. Particularly noteworthy is that, despite the widening interest rate gap between the RMB and the US dollar, the RMB internationalization index has not decreased but has instead risen. The RMB has achieved notable advancements in payment and settlement, investment and financing, pricing, and as a reserve currency.

According to the data of SWIFT, in December 2023, the RMB accounted for 4.14% of global payment and clearing transactions, an increase of nearly two percentage points compared to the same period in 2021. This indicates that over the past two years, the RMB's share has grown by approximately one percentage point annually, making it the fourth-largest payment and settlement currency worldwide.

An increasing number of foreign market participants are considering using the RMB as a financing currency for trade with China. With RMB swap arrangements and

1 The article is a keynote speech delivered by the author at the opening ceremony of the 6th Bund Summit Navigating a Changing World. It was translated by the Secretariat of CF40 and not reviewed by the author. In case of any discrepancy or ambiguity between the English and Chinese versions, the Chinese version shall prevail.

2 The author is the former Mayor of Chongqing.

clearing networks becoming more established, more Chinese companies are opting to use RMB for foreign direct investment when going global. Additionally, an increasing number of domestic industrial and commercial enterprises prefer to use RMB as the invoice currency in international trade.

In terms of reserve currency, since August 2022, the International Monetary Fund (IMF) has officially implemented the latest Special Drawing Rights (SDR) basket, with the RMB's weight increasing from 10.92% to 12.28%.

While these developments are indeed encouraging, we must remain clear-headed and recognize that there is still considerable room for further RMB internationalization, and much work remains to be done.

At present, China is one of the three major hubs in the global value chain, along with the United States and Germany, and is the largest trading partner for over 140 countries and regions worldwide. In 2023, China's total goods exports reached 23.77 trillion yuan (RMB), accounting for 14.2% of the global export market, maintaining its position as the world's largest trading nation for seven consecutive years. China's total imports amounted to 17.99 trillion yuan, representing 10.6% of the global share, consistently ranking as the world's second-largest importer, with its import sources covering over 200 countries and regions. Furthermore, China is a major global investor, with outward investment flows ranking second globally for the past two years.

Behind these figures lie enormous demands for international payment and settlement, investment and financing, trade pricing, and currency reserves. According to the report of People's Bank of China, by the first quarter of 2023, China's RMB Internationalization Index was only 3.26, while the indices of major international currencies such as the US dollar, euro, and British pound were 57.68, 22.27, and 7.66, respectively, showing a considerable gap.

Second, China's efforts to promote RMB internationalization are not aimed at replacing the US dollar's global status, but rather at maintaining the stability of global industrial and supply chains.
There is a notion that China's promotion of RMB internationalization is intended to make the RMB a world currency, replacing the US dollar's current global position. Personally, I do not agree with this view. Whether a currency can become a world currency depends on the needs of global economic development. With the deepening of economic globalization and China's further opening-up, China's interactions with the global economy will continue to expand in both breadth and depth. The RMB will be increasingly accepted by more economies and market participants, and its internationalization process will accelerate. However, this should not lead to the conclusion that the RMB can replace the US dollar's position in the global financial system.

From the perspective of the global currency landscape, currencies can be roughly divided into three categories: the first category is the US dollar, which is the world's primary currency. The United States accounts for 25% of global GDP, yet nearly 50% of international payments are denominated and settled in US dollars, and the US dollar comprises about 60% of global foreign exchange reserves. The second category includes the euro, British pound, and Japanese yen, whose corresponding economies occupy a proportion of the world economy roughly equivalent to these currencies' market share in global transactions.

The third category consists of other economies whose currencies hold a much lower global status compared to their GDP share. China is already the second-largest economy in the world, accounting for 17% of global GDP in 2023. However, the RMB's share in global payment and clearing transactions is only around 4%; and as a reserve currency, it accounts for merely about 2% of global reserves. In the future, RMB internationalization should aim to achieve a status comparable to that of the euro, British pound, and Japanese yen, aligning with China's share of the global economy.

It is important to note that the process of RMB internationalization is an inevitable choice aligned with China's further opening-up and economic development, and it is crucial for maintaining the stability of global industrial and supply chains. As China seeks to build a financial powerhouse, a robust currency is undoubtedly necessary. However, this strength should correspond to China's stage of economic development, serving the real economy rather than becoming a tool for fostering asset bubbles, exploiting the wealth of other nations, or frequent sanctions.

Third, we should further promote RMB internationalization and accelerate the development of offshore RMB markets.

The Resolution of the Third Plenary Session of the 20th CPC Central Committee proposed that we should steadily and prudently advance the internationalization of the RMB, and develop offshore RMB markets. RMB internationalization is a key component of high-standard opening up of the financial sector. To steadily and pragmatically promote RMB internationalization, the following approaches can be taken:

Continue to promote the use of RMB for cross-border trade settlement and pricing. Currently, China's foreign trade has reached new highs, particularly with increased imports expected in the future. In the first nine months of 2023, 24.4% of China's goods trade was settled in RMB. As the high-quality development of the Belt and Road Initiative continues, especially with the deepening of economic and trade cooperation between China and Southeast Asian countries, this percentage is expected to reach 35% by 2030 and 45% by 2035. On this basis, it is anticipated that the RMB's share in global payment settlements will increase by 1 percentage point annually, reaching around 17% by 2035.

Further improve services to support cross-border RMB settlement for emerging business models such as cross-border e-commerce. In 2023, China's cross-border e-commerce imports and exports reached 2.38 trillion yuan, a 15.6% increase. Cross-border e-commerce has become a new force in global trade and a key driver of China's trade development. The Third Plenary Session of the 20th CPC Central Committee called for regulation innovations in customs, taxation, and foreign exchange to create an institutional environment that fosters the development of new business models. As more small and medium-sized enterprises (SMEs) are integrated with the Internet, this will further promote the application of RMB in international transactions.

Continue expanding openness to provide more convenient investment and financing services for both "bring in" and "go out". Over the past 40 years, China has continuously set new records in attracting foreign investment—$2 billion annually in the 1980s, $30 billion annually in the 1990s, $60 billion per year from 2000 to 2010, and $120 billion annually from 2011 to 2020, then $160 billion per year in recent years. China has long been the second-largest recipient of foreign investment. In the future, China is expected to remain one of the most attractive destinations for foreign capital. Foreign investment can enter China either in foreign currencies or RMB. When foreign investors bring in RMB, it can establish a mechanism for RMB circulation. Similarly, as Chinese companies go global, the RMB can also be used as the main currency for foreign investment, promoting the international use of the RMB. This creates a positive cycle of RMB flowing in and out.

Accelerate the development of the offshore RMB market. Currently, Hong Kong, Singapore, and London have become major offshore RMB markets, with Hong Kong being the largest. According to the data of SWIFT from 2023, Hong Kong conducted cross-border RMB transactions with 103 countries and regions, handling approximately $159 trillion worth of global RMB payment and clearing, accounting for 73.3% of global RMB payment and clearing. Moving forward, Hong Kong should continue to leverage its role as the offshore RMB hub, further diversify RMB products, and provide better targets for offshore RMB investment and financing. Additionally, we should note that the RCEP region is one of the most active areas for cross-border RMB usage, and promoting RMB use in RCEP region is an important direction for the development of offshore RMB markets.

Fourth, achieving capital account convertibility is a crucial step toward broader financial openness, but it requires the RMB to gain its rightful status.

Promoting capital account convertibility is an essential aspect of expanding financial openness and building a financial powerhouse. In recent years, relevant authorities have made significant efforts and progress toward capital account convertibility. However, it is important to note that while there is a connection between RMB internationalization and capital account convertibility, they are not the same. Capital account convertibility does not automatically mean that RMB internationalization will be realized smoothly. Rather, the reverse is true—only when RMB internationalization reaches a certain level does it become a necessary condition for capital account convertibility. This reflects the balance between financial openness and security. The more freely the capital account can be converted depends on when RMB internationalization reaches a level that corresponds to China's position in the global economy. At that point, the conditions for greater capital account convertibility will be in place.