**The RMB: A Resistible Internationalization?**

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(Ce texte reprend le contenu des slides d’une présentation PPT trop lourde en raison des tableaux qui ne peuvent pas être placés sur le site du Séminaire et qui ne sont pas reproduits ici. Envoi de la présentation PPT sur demande (xrichet@gmail.com) avant la version papier à venir)

**The RMB: A Resistible Internationalization?**

* Facts
* Challenges
* How does a currency become international?
* Modes and mechanisms of internationalization of the Chinese Yuan
* Resistible internationalization?
	+ External and internal factors that limit (today) its extension
	+ Difficult arbitration between internationalization and social stability

**What future for the RMB?**

* Current context: an “upset evolution” of globalization:
	+ Rise of protectionism, especially US
	+ Context of the “trade war”, China-US negotiations: what compromise, impact on trade, on capital movements
	+ Slow economic growth in China, debt/GDP increase
* What consequences of RMB internationalization?
	+ A new global financial architecture with multiple reserve currencies including Yuan / RMB
	+ A sino-centric international system in competition or in parallel with the International Monetary System with the aim of weakening the US $ (and the €)?
	+ Past attempts or no internationalization attempts: Japanese Yen, DM..
* Contradictions
	+ Trade, Investments: contribute to the growth and expansion of RMB
	+ Domestic economic policy priorities: a brake to its expansion.

**Openness, growth but dependence on US $**

* China's strong export-led economic growth since opening
* Mercantilist strategy, relying on undervalued RMB. Rapid development of financial surpluses, questions of its recycling
* High dependence on US $ (trade, capital)
* Underdeveloped financial system, fragmented, protected from competition and disconnected from domestic market forces (interest rate policies, soft budget constraint, financial repression, misallocation of capital, shadow banking)
* WTO accession, accelerator of trade, export of capital (FDI), protecting many sectors to the entry of foreign competitors
* Impact of the 2008 financial crisis: reaction (injection of liquidities) + reflection on how to reduce dependency on the US $
* 2000s & 2010s: Continuing internationalization of RMB, many filters, from pegging to the US $ to managed floating

**Still predominance of US $ and €**

* RMB not yet attractive despite strong growth: no RMB currency yet
* Most non-performing economies still tied to $
* In 2015, 62% of countries have their currency pegged to $, 60% of developing countries borrow in this currency. > 30% of countries have their currency pegged to the euro, while 13% of countries have their currency pegged to the euro.
* Global currency reserves: central banks hold more than 60% of their reserves in $

**Internationalization and RMB growth**

* 2nd largest world economy; GDP + 15% of world GDP (at market exchange rates) and 12% of world trade:
* RMB has become a reference currency, today one of the components of IMF Special Drawing Rights
* Lifting restrictions on cross-border inflows and outflows of financial capital has led to rapid growth in the use of RMB.
* One of the main currencies in denomination and settlement of cross-border trades and financial transactions
* De facto RMB has become a reserve currency even if China has neither an open capital account nor a flexible exchange rate
* RMB today:
	+ commercial currency (billing of exchanges), investment currency (capital invested for acquisition of assets: Chinese OFDI, FDI in China).
	+ Step 3: Become a reserve currency

**Internationalization and RMB growth**

* Many central banks around the world are acquiring modest amounts of RMB in their foreign exchange reserves portofolios. Many swaps signed over the world with China
* The ambitious project of new silk roads should contribute to increase the international role of the RMB: invoicing of exports, bank loans in RMB.
* Specific mechanisms to channel inbound and outbound capital from China, with HK as the main hub to issue bonds denominated in RMB (Dim Sum Bonds), to invest in China (non-residents), export capital (residents). Other hubs set up (Singapour, London..)

**What is an international currency?**

* Several factors (Tresor Eco)
	+ Size of the country issuing the currency, its role in world trade, the volume of its financial markets
	+ Financial, economic and political stability of the currency area where the currency is issued
	+ Liquidity and depth of financial markets that reduce transaction costs
	+ Convertibility for current and financial transactions with a high degree of openness of the capital account (Doesn’t mean total opening but but make it sensible to market forces)
* Historical comparisons, experiences
	+ £ / $: rapid emergence of U$ but cohabitation for nearly half a century (-> Bretton Woods)
	+ Gowth of the currency without willingness to internationalization: DM..

**Progressive activation of the RMB at the international level**

* Monetary policy: unchanged from 1991 to 2005: exchange rate fixed at 8.18 RMB / $
* Introduction of an extended daily fluctuation band: start of revaluation of the RMB / $
* 2010: partial opening of the capital account through a window in HK: a twin of the domestic currency by creating an offshore market
* At the same time, expansion of the use of the yuan as a currency of trade, bilateral and international trade, both for Chinese exports and for imports excluding raw materials
* Swap agreements with many countries, including developed. 5th world currency but still far from the USA (40%) and € (10%), with around 5%
* Attempt to federate the BRICS, NDB, Asian countries (AIIB): to amortize and avoid crises, even to create a new international monetary system
* The New Silk Roads Project: A vector for increasing the RMB's international role: loans settle up in RMB

**A « dirty float »? From pegging to « managed floating »**

* China’ current managed floating exchange rate system is a BBC regime:
* Fluctuation range (Band), a currency basket (Basket) , incremental adjustment (Crawling)
* Band: +/- 0,5% (2007), +/- 1 % (2012),

+/- 2 % (2014)

* 2016: joining the IMF’s SDR basket

**A resistible growth: Has RMB growth reached its pick?**

* RMB share in global payments declined over the last 3 years. Its use in global bonds market fell by 45% compared to its 2015 peak; also declining of deposits in HK banks, also drops cross-border trade in RMB (from 35% in 2015 to 12% in 2017)
* Many reasons:
	+ Since 2014, the RMB exchange rate has fallen against the $ despite interventions by the central bank. Slowing of China's debt-fueled economic growth and the accumulation of default risks: -> capital outflows by residents and companies.
	+ Choice of economic stability versus exchange flexibility
	+ China has exhausted its export potential: new growth model, middle income trap.
	+ Last reason: contraction of globalization
	+ Decline in capital flows (equities, bonds, IDF, credits) from $ 11.9 trillion to $ 3.3 trillion between 2007 and 2015
	+ Trade and non-trade barriers on the rise
	+ Discriminatory measures grow faster than liberalization policies
	+ China loses market share in shrinking global market

**Reform of the monetary system or social stability**

* What credibility of the Chinese financial system?
	+ Capital outflow, stock accumulation of foreign exchange related to the export and not by the attractiveness of the financial market
	+ Spoliation of savers in general and the middle classes in particular. Risk of increasing with a slowdown in growth and the fragility of the banking system.
	+ Difficult to consider the total opening of the capital account
* What monetary policy?
	+ Control the financial bubbles created by the real estate market financed by cash hidden or channeled by the absence of any investment alternative
	+ Avoid a hard landing: relaxation of the constraint on banks, increase liquidity, launch again major infrastructure works
	+ Partial opening of the capital account through sophisticated mechanisms to invest more easily in the Shanghai and Shenzhen stock exchanges

**What perspectives?**

* Ambiguity of China
	+ Progressive integration into the Bretton Wood system
	+ Creation of a new regional, inter-regional system with other countries (Russia?) Centered around China around trade, commodities, derivatives (future): -> move away from US $
* Several problems
	+ Chinese growth: future role of foreign trade if model of domestic growth develops (urbanization, services, etc.), if GDP groth continue to decline?
	+ Ability to transform the domestic financial system and introduce reforms, especially in the financial area: openness, competition, increasing liberalization of the capital account, end of financial repression.

**Conclusion**

* International RMB growth fueled by strong growth in China's foreign trade in the last decades
* Accumulation of financial resources and the problem of their recycling
* Internationalization and role of the RMB as international currency: 2 steps achieved (commercial currency, investment currency)
* 3rd step, reserve currency still limited
* External factors: contraction of the world market, greater confidence in other currencies ($, €)
* Internal factors: opacity, fragmentation of the financial system, lack of trust from foreign investors
* The trade off between growth, imbalance, social order.