

China's Renminbi as a Global Currency: An Appraisal

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Abstract

In the twenty-first century, China's economy has become immensely influential worldwide. Simultaneously, China's currency, the Renminbi (RMB) or Yuan, has become a global currency. China has successfully established the Renminbi as a global currency on the official and private levels. That means the Renminbi has reliably emerged as a medium of exchange, unit of account, and store of value. Contemporary trends reveal that the Renminbi has been increasingly recognised as a global currency.

Keywords: *China · Renminbi · Global Currency*

1. Introduction

In the twenty-first century, China's economy has emerged as a significant force on the global stage. Currently, China is the second largest economy in the world (Gjoza 2018: 1). Renminbi (RMB) is the currency of China. Renminbi is also known as *the Yuan* (Gjoza 2018: 1). However, in the meantime, the Renminbi has positioned itself as a global currency.

It is not easy for a country's currency to be recognised as a global currency. There are many determinants of an international currency. Some of those determinants are the size of the domestic market of a given country, network externalities, financial markets, and confidence in the country's currency.

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Step by step, China has directed the Renminbi from regionalisation toward internationalisation. For that purpose, China has ensured openness to international markets. In addition, China has deepened international trade cooperation. China has improved Renminbi's global acceptance and status. In total, China has accelerated the trajectory of Renminbi's internationalisation.

Internationalization of a currency means wide use of that currency in denominating and settling international trade and transactions (Xia 2018: 668). China's proactive efforts to establish the Renminbi as a global currency has increased its confidence and importance. Significantly, China has started massively using the Renminbi in international trade and foreign exchange.

Since 2016, the Renminbi has been included in the reserve currency basket of the International Monetary Fund (IMF) (Kwan 2018: 871). IMF maintains the Special Drawing Rights (SDR), the reserve currency basket (Li 2018: 252). IMF's inclusion of the Renminbi into the SDR basket provides the required confidence for foreign central banks for the Renminbi as a reserve currency (Harrison and Xiao 2019: 4). So, the Renminbi is likely to hold a strong position soon as a global currency.

As a global currency, the Renminbi has enormous potential to influence international monetary relations (Twarowska 2018: 6049). China's massive share of global trade justifies the increasing importance of the Renminbi in international relations.

2. Theoretical Framework: Cohen Matrix of International Currency Use

B. J. Cohen provided a matrix of international currency use in the book *The Future of Sterling as an International Currency* (Twarowska 2018: 6051). Cohen's matrix of international currency use is pertinent to the study on the Renminbi as a global currency (Twarowska 2018: 6051). The international model of the matrix is also attributed to P.B. Kenen (1983) and Thimann (2009) (Twarowska 2018: 6051).

Table 1: Cohen matrix of international currency use

Theorist's matrix	Private use	Official use
Medium of exchange	Vehicle currency	Intervention currency
Unit of account	Quotation currency	Anchor currency
Store of value	Investment and financing currency	Foreign exchange reserve currency
Practitioner's matrix	Use in financial markets	Use in third countries
	International debt markets	Exchange rate anchor, Foreign exchange reserves
	Foreign exchange markets	
	International trade invoicing	Cash and parallel currency use

Source: Twarowska, 2018, p.6051

The matrix of international currency use elaborates on the functions of money. The Cohen matrix can help understand the Renminbi's position as a global currency.

Firstly, a particular currency becomes a global currency if it is widely used as a *medium of exchange*, *unit of account*, and *store of value*. Thus, in simple words, an international currency is substantially used as a means of payment outside the issuing country.

Secondly, a global currency needs to hold a strong position in the private and official sectors. In private uses, an international currency should act as a vehicle currency, quotation currency, and investment and finance currency. Then, in official uses, a global currency should act as an intervention currency, anchor currency, and foreign exchange reserve currency.

Thirdly, a global currency is extensively used in international financial markets. A global currency is broadly used in international debt markets, foreign exchange markets, and international trade invoicing.

Fourthly, a global currency is widely recognised and used in third countries (foreign countries) as an exchange rate anchor, foreign exchange reserves, and cash and parallel currency. The trust of other nations is very important in turning a particular currency into a global currency.

Fifthly, the magnitude of a currency issuer's economy plays a vital role. Specifically, the position and strength of the issuer country in the world economy are important. In fact, the stronger a country's position in the world economy is, the more likely it is that foreign countries will use its currency (Twarowska 2018: 6050).

Furthermore, institutional and legal conditions and macroeconomic stability are crucial in earning confidence in a particular currency as a global currency. In reality, the larger and more liquid the financial market is, the higher the possibility foreign countries accept that country's currency as a reserve currency (Twarowska 2018: 6050). Once a particular currency is well accepted for cross-border transactions, the currency comes to be widely acknowledged as a global currency.

3. Methodology

This study used qualitative research methodology. It collected and reviewed many books, journal articles, research papers, etc. Thus, secondary data from various sources was used. The research paper was then drafted as a journal article. Overall, this paper is presented from an objective perspective.

4. Literature Review

China has become a significant power on the global stage in terms of political economy considerations (Gjoza 2018:1). Meanwhile, China's currency, Renminbi, has emerged as a worldwide currency. The influence of a global currency extends to the entire world (Xia 2018: 668). An international currency is widely used to invoice international trade, to settle payments in trade in goods and services and financial transactions, to denominate financial assets, and to serve as reserves with confidence for foreign central banks (Edwin 2015: 3). Internationalization of a currency refers using it extensively in denominating and settling global trade and cross-border financial transactions (Gjoza 2018: 3).

Internationalisation of a currency is a complex process (Chey 2012: 5). From the Second World War (WW II) till date, the US Dollar, the British Pound, the Japanese Yen, the German Mark, and the Euro played role in global currencies (Zhang 2015: 4). And, before the WW II, for several centuries, the currencies of Great Britain, the United States (US), France and Spain played significant role as international currencies.

The role and function of a global currency can be considered at the official and private levels (Xia 2018: 668). At the *official* level, a global currency acts as the intervention currency, the pegged currency and the international reserve currency (Xia 2018: 669). Besides, a global currency, at the *private* level, acts as the settlement, valuation, and alternative currency in international trade and financial markets (Xia 2018: 669).

There are several critical factors of currency internationalisation. Those factors include—the economic strength of a country, the foreign trade volume of the country, the development of financial markets, and the trend of the stability of currency value (Xia 2018: 669). However, the internationalisation of a country's currency requires—the government's intervention in its currency and the domestic and international transaction networks formed by market forces (Xia 2018: 669).

Some conditions for a fully internationalised currency are the issuer's larger share of global trade, finance, and output, a highly open economy, flexibility of foreign exchange, confidence and predictability of the currency, and relative stability of currency value (Xia 2018: 669).

The Renminbi (RMB) has been contributing as a global currency (Gjoza 2018: 24). China intends to promote the Renminbi as both a reserve currency and a means of cross-border transaction. To make the Renminbi widely used, China has already relaxed the restrictions (Gjoza 2018: 2). China has gradually promoted the Renminbi from regionalisation toward internationalisation (Xia 2018: 667). China has improved the Renminbi's global status, increased openness toward international markets, and deepened foreign trade cooperation (Xia 2018: 667).

Chinese authorities have taken necessary steps to support the internationalisation process of Renminbi (Harrison and Xiao 2019: 4). There are many *political* and *economic* drivers for turning a particular currency into a global one (Gjoza 2018: 5). *Political drivers* are—influence and prestige, security issues, domestic reform, and appropriate opportunity. In addition, *economic drivers* are—trade, commodities and services, borrowing, and financial development (Gjoza 2018: 6). Politically, the Chinese leadership has articulated its visions and adopted a sufficiently large number of measures for its economic diplomacy to make Renminbi a genuinely global currency (Daojing 2015: 86).

On 1 October 2016, the Renminbi was formally added to the Special Drawing Rights (SDR) basket of the International Monetary Fund (Kwan 2018: 871). Special Drawing Rights are the IMF's foreign exchange reserve assets (Li 2018: 252). IMF's inclusion of the Renminbi into the SDR basket ensures proper justification for foreign central banks to include the currency in their foreign currency reserves (Harrison and Xiao 2019: 4). As a result, the Renminbi is likely to play a more critical role after being a part of IMF's SDR basket.

Rationally, the Renminbi is expected to hold a more robust position soon as a global currency (Harrison and Xiao 2019: 4). The People's Bank of China has concluded swap agreements with foreign central banks in recent years to ensure a sufficient supply of Renminbi (Harrison and Xiao 2019: 4).

The contemporary trend indicates that the Renminbi is increasingly recognised as a global currency (Zhang 2014: 1). significantly, China has started to extensively use Renminbi in international trade and transactions (Frankel 2011: 12). Notable developments in Renminbi internationalisation since the beginning of the twenty-first century include—trade settlement in Renminbi, cross-border direct investment in Renminbi, reserve currency, and currency swaps with foreign central banks (Zhang 2014: 6). Overall, Renminbi has a great potential as a global currency (Twarowska 2018: 6049).

5. Findings and analyses

4.1. Renminbi becomes an International Currency

China's economy is the second largest economy in the world. In contrast, the United States (US) economy is the largest (Gjoza 2018: 1). China's currency, Renminbi, has already become an international currency. It is noteworthy that the internationalisation of the Renminbi is relevant to China's global prestige and influence (Gjoza 2018: 1). Interestingly, the internationalisation of a currency is a political economy issue rather than a mere economic one (Chey 2012: 13). Apparently, China has been working to translate economic strengths and

achievements into international influence and global prestige.

By the first decade of the twenty-first century, China's economy has emerged as a significant force on the global stage (Gjoza 2018: 1). Simultaneously, the Renminbi has positioned itself as a worldwide currency. China has made up the Renminbi, an international currency at the official and private levels. So, the Renminbi has reliably emerged as a medium of exchange, unit of account, and store of value. With it, recent trends reveal that the Renminbi is increasingly recognised as an international currency.

4.1. Role of an International Currency

A global currency is required to perform manifold activities. First, a global currency acts as a reliable medium of exchange. A global currency is a vehicle currency for foreign exchange intervention. Besides, a global currency is generally acceptable for invoicing trade and financial transactions. Secondly, a global currency can serve as a unit of account. An international currency is used to anchor for pegging currency. An international currency is also used to denominate trade and financial transactions. Thirdly, a global currency serves the purpose of store of value. A global currency acts as an international reserve. In addition, an international currency is commonly used for currency substitution.

Table 2: Role of an international currency

Function of Currency	Governments	Private Actors
Medium of exchange	Vehicle currency for foreign exchange intervention	Invoicing trade and financial transactions
Unit of account	Anchor for pegging currency	Denominating trade and financial transactions
Store of value	International reserves	Currency substitution

Source: Gjoza, 2018, p.8. (based on Frankel 2012)

4.1. Gradual developments of Renminbi's internationalisation

In the initial phase, China relaxed its openness to Renminbi usage. China realised that the Renminbi must be officially added to the international monetary flow, So It aimed to include it in the Special Drawing Rights basket of the International Monetary Fund.

Table 3: Gradual developments in Renminbi's internationalisation

Time	Development of Renminbi's Internationalization
July 2005	China stops Renminbi's peg to the US dollar
May—July 2007	The first off-shore denominated Renminbi bonds (known as dim-sum bonds) are issued
July 2009	China takes a pilot project to settle Renminbi transactions internationally.
March—December 2010	China launches the Chiang-Mai initiative with a US\$120 billion currency swap arrangement.
January—December 2011	China allows Chinese companies to invest in foreign countries in Renminbi. directly
2012—2014	Direct trading between Renminbi and foreign currencies expands.
October 2016	International Monetary Fund includes the Renminbi in the Special Drawing Rights basket

Source: Compiled by authors (based on the data from Gjoza, 2018, p.10.)

China has gradually developed Renminbi as a global currency. To begin with, China ended the Renminbi's peg to the US dollar in July 2005. China issued the first off-shore denominated Renminbi bonds in 2007. Then, China adopted a pilot project to settle Renminbi transactions in 2009. 2010, during the global financial crisis, China launched the Chiang Mai initiative with a US\$120 billion currency swap arrangement to prevent speculation in financial markets. China has allowed Chinese companies to invest directly in foreign destinations in Renminbi. After that, China has permitted wide-scale direct trading between Renminbi and foreign currencies. Eventually, in October 2016, the International Monetary Fund incorporated the Renminbi in the Special Drawing Rights basket.

4.1. China's Share in the World Economy

China's share in the world economy is important to understanding Renminbi's global position. A country's economic influence and potential are clearly reflected in its share in world production (Gjoza 2018: 6052).

Table 4 (a): Share in world GDP (current prices) in 1995, 2017 and 2022 (projection)

Country	1995	2017	2022
China	2.40	15.10	17.80
United States	24.70	24.40	22.80
Euro Area	24.30	15.80	14.80
Japan	17.60	6.20	5.30

Source: Gjoza, 2018, p. 6052.

In terms of Gross Domestic Production (GDP) (current prices), China has steadily advanced towards a more significant share of the overall world economy. In contrast, Japan has gradually shrunken. However, China will likely score an increased share of the world economy in the coming years. China holds solid economic power in the international system.

Table 4(b): Share in world GDP (in PPP dollar) in 1995, 2017 and 2022 (projection)

Country	1995	2017	2022
China	5.90	18.30	20.50
United States	20.10	15.30	14.00
Euro Area	18.20	11.60	10.50
Japan	7.80	4.30	3.70

Source: Gjoza, 2018, p.6052.

Apparently, China's economy is the fastest growing among the world's top economies. China is a dominant global trader (Gjoza 2018: 6052). Contemporary trends predict a further strengthening China's influence in the world economy.

4.1. Renminbi's share in the Special Drawing Rights basket

International Monetary Fund has included the Renminbi in the Special Drawing Rights basket as the fifth currency in 2016. In fact, the growing influence and role of the Renminbi as a global currency has been affirmed by its inclusion in the Special Drawing Rights.

Table 5: Renminbi's Share in the Special Drawing Rights

Currency	Share Percentage (%)	
	2010 Review	2016 Review
US Dollar	41.90	41.73
Euro	37.40	30.93
Renminbi		10.92
Yen	9.40	8.33
Pound Sterling	11.30	8.09

Source: Compiled by the authors (based on IMF data 2017 presented in Gjoza, 2018, p.6060)

Current data signifies that the global economy is in a process of change, and the Renminbi holds an influential position. During the 2010 review, the Renminbi was not present in the Special Drawing Rights. On 1 October 2016, it was included in the Special Drawing Rights. In the IMF data 2017 (based on a 2016 review), the Renminbi scored 10.92 percent in the Special Drawing Rights. So, the Renminbi has achieved a larger scope of contributing to the international monetary system.

4.1. Final Point

China has made numerous endeavours to internationalise Renminbi as a global currency. Over decades, the Renminbi has emerged as a convertible, acceptable and reliable currency worldwide. China's high share in world trade has facilitated Renminbi as a well-known medium of payment (Gjoza 2018: 6057). Specifically, China's position as the leading exporter in the global economy has facilitated Renminbi opportunities for invoicing international trade. However, foreign investors' confidence in Renminbi is essential to sustain the status and influence of Renminbi as a global currency.

The Renminbi's internationalisation goes with the Cohen matrix of international currency use. Concurrently, the Renminbi plays an anchor currency in the global monetary system. Moreover, the Renminbi is an essential currency as a medium of exchange, unit of account, and store of value. The Renminbi has achieved recognition as applicable at the official and private levels. Furthermore, the Renminbi has been reliably used in financial markets and third countries. Many countries now perceive the Renminbi as a reserve currency. To recapitulate, the role and influence of the Renminbi as a global currency have been well-established. Contemporary trends suggest that the Renminbi as a global currency will be further strengthened.

5. Conclusion

There are numerous significant achievements of the Renminbi as a global currency. Wide-scale trade settlement in Renminbi is a prominent achievement. Cross-border direct investment in Renminbi is another eminent achievement. In addition, the Renminbi is a reserve currency. Furthermore, the convenient process of currency swaps with foreign central banks makes the Renminbi a competent global currency. In the meantime, the International Monetary Fund has included the Renminbi in the Special Drawing Rights basket of the global monetary system. Across the board, China's efforts to internationalise the Renminbi conform to Cohen's matrix of international currency use. Undoubtedly, the Renminbi has far-reaching potential as a global currency.

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