

The Present Situation and Outlook of RMB Internationalization

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The RMB internationalization is a major event of China's external economic expansion. The Chinese government has done a lot on promoting RMB internationalization, opening up capital account, and increasing the elasticity of RMB exchange rate. There has been much progress in foreign trade and investment, and RMB is believed to become a freely-convertible currency soon. However, the internationalization of RMB should be a long-term process.

A. Changes of Government Actions and Policies

In November 1996, China announced to perform the obligation of the Article 8 of International Monetary Fund (IMF) on the free convertibility of current account. But China's financial market and capital account are not opened up entirely. For a very long period of time, US dollar is the major currency China used for its foreign trade settlement. China scheduled to use RMB for the settlement of current account in 2008, and started to do so from July 2009.

B. RMB Settlement of Current Account Trade

1. RMB Becoming the Major Settlement Currency of Cross-border Trade
2. Cross-border Trade RMB Settlement
3. Channels of RMB Backflow
4. Currency Swap

C. Transition of RMB Exchange Rate System

In January 1994, China changed its multiple exchange rate systems into a single one, and employed managed floating rate mechanism. From July 2005, the elasticity of RMB exchange rate is getting higher and higher, and the amplitude of RMB rate fluctuations will become even bigger following the progress of RMB internationalization.

D. Outlook of RMB Internationalization

1. RMB is ready to be an international currency.
2. RMB has to be freely-convertible soon.
3. Three steps for the RMB internationalization

E. Conclusion

The RMB internationalization is a long-term process. In a certain sense, whether or not RMB is able to become an international currency counts on the economic status and the economic structure of China, rather than on the constraints from the external economies. When the size of China's economy is big enough, its dependence on foreign trade is small enough, and its influence on external economies is strong enough, a successful RMB internationalization will then see to the development level and opening-up level of China's financial market, in other words, to the attractions of China's financial market toward foreign capital. The financial market should become the major channel for the backflow of RMB.