

ROUTLEDGE STUDIES IN THE MODERN WORLD ECONOMY

# The Internationalization of the Renminbi

International Monetary Institute,  
Renmin University of China

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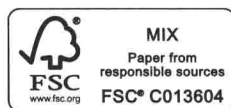
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# The Internationalization of the Renminbi

The recent financial crisis, rooted in the United States, has changed the world's economic and financial structures. The Chinese government has made some arrangements in the post-crisis to ensure stable economic growth in volatile international economic environments and to protect its own interests from unfair international monetary treatment. The internationalization of the Renminbi (RMB) is one of China's most important national strategies in the twenty-first century and is symbolic of the rise of China.

This book aims to document the process and the development of the internationalization of the RMB and to identify the challenges. The book introduces an index of internationalization of the RMB. It also uses a comprehensive multi-variable index to determine the degree of internationalization of the Renminbi.

This book helps readers to understand the current status of the reformation of China's currency system, the process of internationalization of the RMB and the current, intricate political and economic relations.

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# 1 Internationalization index of the Renminbi

## 1.1 RMB internationalization index and its principles

### 1.1.1 Internationalization of the RMB

The internationalization of a currency refers to a sovereign currency being widely used by other countries in international trade, international capital flows, and foreign exchange reserves. From a static view, currency internationalization describes the status and result of a currency being used as an international currency, and from a dynamic view, currency internationalization involves the whole process of becoming an international currency.

According to the above definition, the internationalization of the Renminbi (RMB) refers to the process of the RMB performing the functions of a currency worldwide, becoming a major pricing and settlement currency in trade, and becoming a financial transaction currency and an international reserve currency.

From a historical perspective, there are some basic conditions for a country's currency to realize internationalization. For example, the real economy should maintain steady development, and play an important role in international trade and economy; there should be a higher level of domestic financial liberalization and international openness; and the basis of a market system and a macroeconomy which is helpful for currency internationalization should be established. Although the RMB initially meets some conditions of internationalization, China still faces a long and arduous process to realize the ultimate goal. There is no doubt that internationalization of the RMB is a process of combination between natural market formation and government policy guidance, a process full of gaming among various international forces, and a process of raising China's political and economic soft powers.

### 1.1.2 Definition of the RMB internationalization index

The RMB internationalization index refers to the indicators and data that take into consideration the global proportion of all functions of the RMB viewed as an international currency, and which show an objective, dynamic, and scientific description of the degree of internationalization of the RMB.



## 2 *Internationalization index*

Internationalization of the RMB is a realistic goal that would serve to protect China's national interests after the latest global financial crisis. Promoting the internationalization of the RMB means breaking the current pattern of the international monetary system, sharing vested interests with existing international currencies, and bearing accompanied and unprecedented monetary regulation and risks of external shocks. In the process of internationalization of the RMB, the question of how to accelerate the transformation of China's economic growth pattern under the premise of avoiding major crises is definitely an initial problem in the government's macroeconomic policy. Compilation of the RMB internationalization index will comprehensively reflect the degree of internationalization of the RMB, and also supply an efficient operational and management way for government decision-making sectors to accurately grasp this dynamic process, helping them to propitiously seize new opportunities and challenges from home and abroad during this process of internationalization, and decisively adjust or formulate macroeconomic policies.

### ***1.1.3 The purpose behind the compilation of the RMB internationalization index***

First, compilation of the index, based upon functions of currency, can analyze current status and important determinants of internationalization of the RMB, and provide a comprehensive indicator system for government decision-making sectors to scientifically evaluate the process.

Second, the process of internationalization of the RMB can be reflected objectively, conveniently, and dynamically; can provide a reflection of the dynamic evolution of internationalization of the RMB to the world; and then provide a new general measurable indicator for the research of internationalization of the RMB, filling the theoretical vacuum of research in internationalization of the RMB.

Third, comparative analysis of the internationalization index of the RMB and other major currencies can help understand the main factors that promote or hinder internationalization of the RMB; recognize the difference between internationalization of the RMB and internationalization of other major currencies; find the principal contradictions and the prominent problems; and provide the government with a convenient evaluation tool to analyze and review the achievement of internationalization of the RMB and the effectiveness of relative promoting measures, so as to help the government grasp opportunities in the internationalization of the RMB in good time, and formulate appropriate and targeted policies to advance the internationalization of the RMB.

Fourth, countries all over the world can be provided with a reference for the selection of a currency to be used in trade and official reserves. Although internationalization of the RMB is a natural selection that goes with the tide of the international economic situation after the global financial crisis, several countries are not willing to choose the RMB as their official reserves owing to a lack of understanding of the international use of the RMB. The RMB internationalization index can strengthen foreign governments' and corporations'