EVALUATION OF THE RENMINBI INTERNATIONALIZATION: STRATEGY AND PROSPECTS

BY

MR. WARATCH THANANANT

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF POLITICAL SCIENCE IN INTERNATIONAL RELATIONS

FACULTY OF POLITICAL SCIENCE
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ENTITLED

EVALUATION OF THE RENMINBI INTERNATIONALIZATION:
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ABSTRACT

Internationalizing a currency has global repercussions, as the world is interconnected through international trade linkages. Without strict boundaries, due to an extent of capital account liberalization, the rise of China brings upon a question of whether the emergence of the renminbi will affect the global monetary system and if so, to which degree. An understanding of the path towards currency internationalization through the use of different theories from international political economy of monetary relations and various datasets is critical.

This study investigates the current state of the renminbi, evaluate currency internationalization prospects utilizing from historical narratives, and examine the underlying motivation and policy rationale under the world of greater multipolarity of international currencies. Building upon existing conceptual frameworks, the study found that the introduction of the renminbi internationalization since 1999 goes along a very long-term pursuance, in line with geopolitical initiatives (Belt and Road Initiative or abbreviated as BRI) and accommodative international financial institutions (IFIs) (such as the New Development Bank and Asian Infrastructure Investment Bank). In addition to the key factors analysis, an important factor in internationalizing any given currency is the liberalization of the capital account – supporting the argument that internal domestic and structural reforms must first be in a 'good state' before appreciative pressure comes along towards the currency following greater adoption.

One implication from this study is that the renminbi internationalization may not reduce such internal domestic structural imbalances, thus it is at great importance to manage prudently the amount of reserves while preventing the renminbi exchange rate from overheating.

Future research is recommended to monitor and assess long-term geopolitical initiatives, especially the Belt and Road Initiative, Chinese-led IFIs, as well as central banking monetary relations (such as Bilateral Swap Arrangements or BSAs). In this regard, any disbursement or collateralization jointly conducted by a Chinese-led partner may need to be paid attention to the degree of denomination of renminbi being applied, as means of internationalizing the currency. Lastly, the presence of the strategy itself being unclear and inexplicit shows the utmost perseverance of Chinese authorities to wait for the right timing – following a famous Chinese proverb: "cross the river by feeling the stones". Among the generic theories used in this research, the paper places importance in two theories. Firstly, Petrodollar Mercantilism as to prop up the value of a currency by denominating all oil exports in US dollar. Secondly, Economic Realism as to achieve influence and state power, mirroring the BRI geographically. Hence, a new term is proposed to reflect the degree between internationalization and regionalization as "Renminbi Continentalization".

Keywords: Belt and Road Initiative, Currency Internationalization, Dollar Hegemony, Petrodollar, Renminbi Internationalization

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LIST OF ABBREVIATIONS

Abbreviation	**Terms**
AFC	Asian Financial Crisis
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN Plus Three (ASEAN including China, Japan, and S. Korea)
AUD	Australian dollar
BIS	Bank of International Settlements
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
BSA	Bilateral Swap Arrangement
CAL	Capital Account Liberalization
CDB	China Development Bank
CIPS	Cross-border Interbank Payment System
CNH	Chinese yuan (Hong Kong)
CNY	Chinese yuan
COFER	Currency Composition of Official Foreign Exchange Reserves
EU	European Union
EUR	Euro
FTA	Free Trade Agreement
FX	Foreign Exchange
GBP	British pound sterling
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HSBC	Hongkong and Shanghai Banking Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IMS	International Monetary System
INDO	Indonesian rupiah (or IDR)
INR	Indian rupee

Abbreviation	Terms
IPO	Initial Public Offering
JPY	Japanese yen
KRW	Korean won
MRF	Mutual Recognition of Funds
MYR	Malaysian ringgit
NDB	New Development Bank
NZD	New Zealand dollar
PBOC	People's Bank of China
PHP	Philippine peso
QFII	Qualified Foreign Institutional Investor
RBA	Reserve Bank of Australia
RCEP	Regional Comprehensive Economic Partnership
RGDP	Real Gross Domestic Product
RMB	Renminbi
RQFII	RMB Qualified Foreign Institutional Investor
SDR	Special Drawing Rights
SGD	Singaporean dollar
SMEs	Small to Medium Enterprises
SOE	State-owned Enterprises
THB	Thai baht
TISA	Trade in Services Agreement
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
TWD	Taiwan new dollar
US	United States
USD	United States dollar
WTO	World Trade Organization
WWII	World War Two

CHAPTER 1
INTRODUCTION

1.1 Renminbi's rise

The general topic and importance of global currencies to their roles for the international monetary system comes into play when their global statuses changes. Hypothetically, questions arise whether the US dollar could one day be replaced by other currencies, or whether the Japanese yen can lose its international role. Today, the Chinese renminbi is being spotlighted for the possibility of challenging existing international currencies on the global stage – being used outside its domestic constituency and outside of its local domain. Policy papers and academic findings attempt to present indicators used to assess the degree of internationalization of currencies, yet these concepts are nevertheless fully definite, as various currencies in the international financial system develops interchangeably with market variations multidimensionally. This paper attempts to provide a qualitative concept of the importance of international currencies, drawing upon historical narratives and summing up the existing literature account to develop a measure of the Chinese renminbi's role to currency internationalization.

> *"When China sneezes, the world economy catches a cold." – a common phrase used in different variations to describe the significance of a global economic power readjusting to the global macroeconomy* (Tok, 2016). *This is true from both the trade, commodity, and financial market fronts.*

As a background knowledge, for 100 countries in the world, China is amongst the ten trading partners. Financial spillovers from China is stronger than before, especially for countries with greater trade links with China – thus, what China does, moves markets. Moreover, China is the second largest economy in the world (in current dollar terms), a key player in commodity markets, the world's largest producer and consumer of gold,[1] and has the world's largest reserves holdings.[2] What is profound

[1] Along with India sometimes.
[2] Thus, the need to diversify.

is, as China's world's second-largest economy has been rebalancing due to sluggish growth contributed by falling exports and decreasing investments, the International Monetary System (IMS) also needs to rebalance as well, hence the rebalancing of the Chinese renminbi as a reserve currency (Tok, 2016).

A review of the literature related to currency internationalization reveals much mixed views and commentary around this topic. Most literature accounts revealed an increasing number of academic consensus on the end of a dollar-centered order in the long-term future of the international monetary system due to various reasonings including China's rise as a global power. However, the decline in the US dollar does not necessarily translate to a new unipolar world of currency, or be it a bipolar world, but rather a transitionary period of multipolarity of currencies for international trade. In this regard, several concepts have been introduced. For instance, China brings along the pursuance of establishing its internationalization of its currency through the notion of "currency statecraft", defined as a state's strategy for monetary rivalry and geopolitical ambition (Cohen, 2017). However, this goal, seen as the most Realist view, will directly pose a challenge to all other international currencies, especially the US dollar.

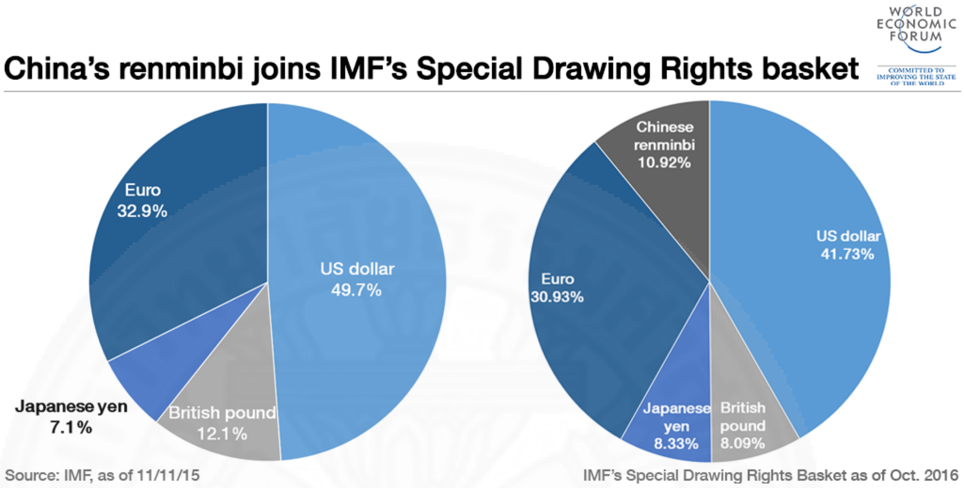
Renminbi internationalization had been along since 1999, and more notably in 2009 when the People's Bank of China (PBOC) announced the renminbi internationalization policy to promote the currency internationally – the first instance for China to allow using onshore renminbi for international trade. More recently to outline the current situation, on October 1, 2016, the Chinese renminbi has been included to the International Monetary Fund's Special Drawing Rights (SDR) basket of currencies – a supplementary foreign-exchange reserve asset. As a unit of account managed by the IMF, the SDR is symbolic as it functions as a representation of claims to currency by which an IMF member country may exchange.[3] With the renminbi included in the SDR basket representing 10.92 percent in weight, it becomes the world's third largest currency in the basket. By 2020, the Chinese renminbi is expected to become the key currency by 2020, and by then, it is projected to become the world's third largest currency after the US dollar and the Euro, considering already being ranked

[3] More information available at: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR

as second for trade financing, fifth for payments, and sixth for foreign exchange dealings (Tok, 2016).

Figure 1.1

New Composition of the IMF's Special Drawing Rights Basket with the RMB



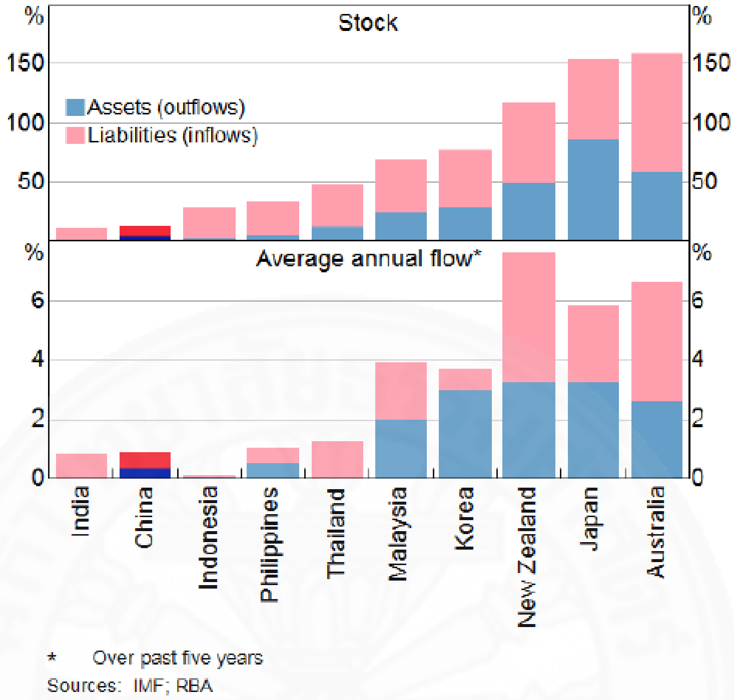
Note: From "What does reserve currency status mean for China, and the world," by H. Feng, 2015, December 1. World Economic Forum, https://www.weforum.org/agenda/2015/12/what-does-reserve-currency-status-mean-for-china-and-the-world/. Copyright 2015 by World Economic Forum.

To visualize the progression and current situation of the renminbi internationalization made by the PBOC, below are selected graphs produced by the Reserve Bank of Australia's (RBA) Bulletin, which are based on their set of indicators to gauge the internationalization process (Windsor & Halperin, 2018).

1. "Offshore Portfolio Holdings as a percentage of GDP" (Figure 1.2 in paper) – to measure the degree of portfolio investment or capital account openness relative to Asian countries. Over the past years have Chinese financial reforms, the capital account in China have been pressured to be liberalized in adoption of the internationalization process. Having opened capital accounts would yield more diversified assets for China as a whole as the private sector would be likely to embrace more holdings of offshore portfolio assets. A measurement for the degree of liberalization of the capital account is the stock variables and annual average flow variables of China's offshore portfolio holdings in comparison to Asia as a whole as depicted in Figure 1.2.

Figure 1.2

Asia – Offshore Portfolio Holdings (per cent of GDP; excluding assets of the central bank)

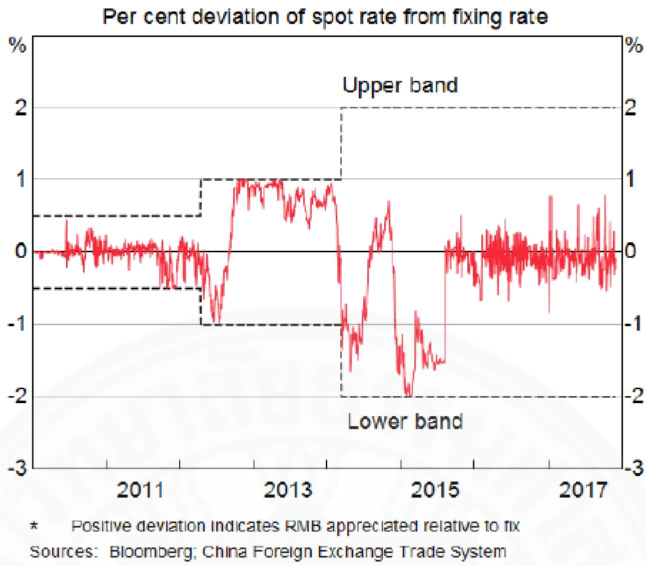


Note: From "RMB internationalization: Where to next?" by C. Windsor & D. Halperin, 2018. Bulletin – September 2018, Reserve Bank of Australia. Copyright 2018 by C. Windsor & D. Halperin.

2. "RMB Trading Band against the US Dollar" (Figure 1.3 in paper) – to illustrate the liberalization of exchange rate. China has made significant efforts to liberalize its degree of "managed float" as it widens its trading band in sequences. As depicted in the chart below, noticeably, there is an increased flexibility added by the authorities. The main policy behind is the removal of the bank lending rate floor to allow banks to compete more in lending rates, and by 2015, the cap on deposit rates were removed entirely. The result is the trading band widening in two main sequences.

Figure 1.3

RMB Trading Band Against US Dollar

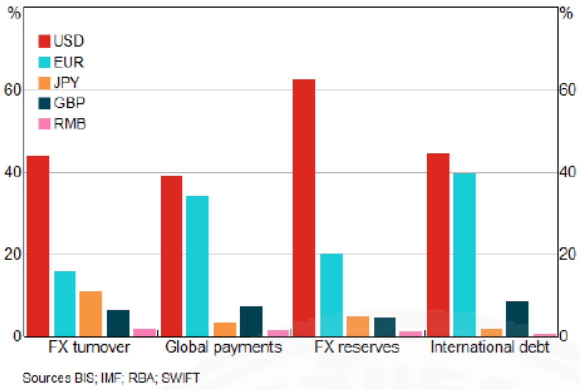


Note: From "RMB internationalization: Where to next?" by C. Windsor & D. Halperin, 2018. Bulletin – September 2018, Reserve Bank of Australia. Copyright 2018 by C. Windsor & D. Halperin.

3. "A Snapshot of International Currency Use" (Figure 1.4 in paper) – to show the trend in RMB usage across various selected countries in different use cases. As looking for trends in usage of the international currency usage of the top five main global currencies, as of 2018, China accounts for almost 20 percent of global output and slightly over 10 percent of global trade – thus the increased usage of the renminbi in structural trade factors but also speculative factors (Windsor & Halperin, 2018).

Figure 1. 4

A Snapshot of International Currency Use

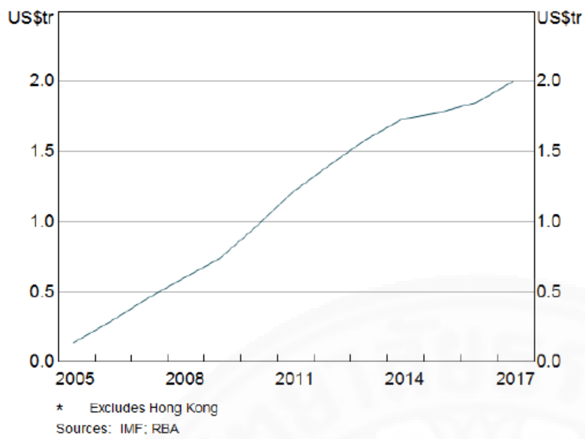


Note: From "RMB internationalization: Where to next?" by C. Windsor & D. Halperin, 2018. Bulletin – September 2018, Reserve Bank of Australia. Copyright 2018 by C. Windsor & D. Halperin.

4. "China's Net Imports from Asia" (Figure 1.5 in paper) – to display the interconnectedness in trade with its Asian neighbors and how these strong trade ties can "naturally accumulate RMB deposits". Moreover, the Belt and Road Initiative would be a positive complementary factor in providing the flow to the region because the program often times require the transaction to be settled in renminbi as financing terms. Thus, China would engage diplomatic links closer to nations that are likely to respond in the same cyclicality as their currencies as a way to foster trade competitiveness and reduce exchange rate fluctuations between each other among the trading partners (Windsor & Halperin, 2018).

Figure 1.5

China's Net Imports from Asia (Cumulative since 2005)

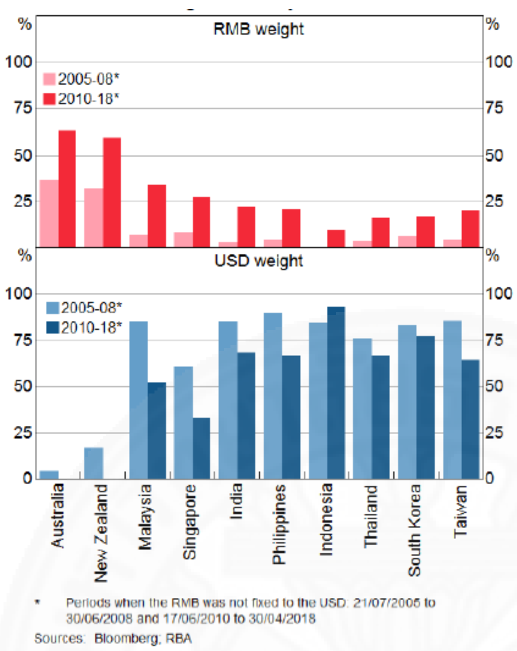


Note: From "RMB internationalization: Where to next?" by C. Windsor & D. Halperin, 2018. Bulletin – September 2018, Reserve Bank of Australia. Copyright 2018 by C. Windsor & D. Halperin.

5. "The Rise in the RMB in Asia – Weight in currency baskets" (Figure 1.6 in paper) – to describe how the Asian monetary system gravitates towards multipolarity as all economies in the study showed. In the research by the RBA, the authors have chosen the functions of FX turnover, Global Payments, FX reserves, and International debt. It is cross-studied with the USD, EUR, JPY, GBP, and the RMB. Noted by the authors, it seemed that the formation of the renminbi currency bloc that is being developed in Asia is far from stable - a relative degree of measurement compared to other currency blocs such as the Euro in the Eurozone. Therefore, in the next graph, the determinant of currency co-movement is mainly trade.

Figure 1.6

The Rise of the RMB in Asia (Weight in currency baskets)



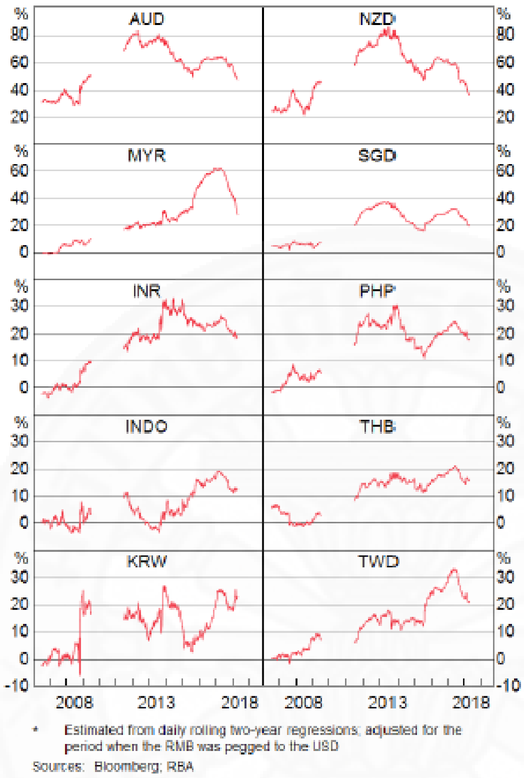
Note: From "RMB internationalization: Where to next?" by C. Windsor & D. Halperin, 2018. Bulletin – September 2018, Reserve Bank of Australia. Copyright 2018 by C. Windsor & D. Halperin.

6. "The Rise of the RMB in Asia – RMB weight in baskets including: RMB, USD, EUR, YEN, GBP" (Figure 1.7 in paper) As seen in the graph, the currency bloc that analysts and academic have been visioning about the renminbi has slowly shrunk in size, uniformly, over the years. This dynamic was mentioned by the author to be driven by two main factors – trade and the way authorities manage the exchange rate.

Figure 1.7

The Rise of RMB in Asia

(RMB weight in baskets including: RMB, USD, EUR, YEN and GBP)



Note: From "RMB internationalization: Where to next?" by C. Windsor & D. Halperin, 2018. Bulletin – September 2018, Reserve Bank of Australia. Copyright 2018 by C. Windsor & D. Halperin.

One principle interest for states aiming for currency internationalization is the economic and political influence exerting into international monetary relations, impacting values of other currencies, and the global monetary order. Likewise with the dollar's rise, the world's political economy in the late 1960s corresponded with the US geopolitical policies, competing with challenging international currencies, with respect to the euro's beginnings in the late 1990s. This paper identifies the key concepts used to build stronger analytical frameworks in analyzing currency internationalization, utilizing debates, and historical cases over the past decades. Therefore, from the prior mentioned background information, this research entails three main research questions. The first is using the case studies of the US dollar, Euro, and Japanese yen, what lessons can be drawn in terms of geopolitical policies and/or initiatives of currency internationalization? The second research question is to figure out how current international financial institutions play a role to supporting currency internationalization initiatives? Lastly, the third research question is what are China's policies in international finance, monetary cooperation, and geopolitical strategy in relation with promoting the renminbi currency internationalization process? These questions will lead to a comprehensive evaluation of the main question: What are the prospects of the renminbi internationalization? This paper aims to argue that there will be a greater degree of internationalization of the renminbi, but not to the international currency status within the next ten years. The renminbi may achieve only regional currency status given that high dependency of the success rate of the Chinese geopolitical strategy, lack of international financial institutions' support, and its own domestic policies' effectiveness.

There are two main problems that this research aims to present. First, there is a lack of theoretical application to this policy agenda of renminbi internationalization. Second, much of the available literature and policy papers have not made a comprehensive comparison with the monetary history that have allowed the dollar's supremacy in international finance in parallel with the Chinese renminbi. Therefore, an updated qualitative assessment is required in order to gain a proper understanding of how international currencies exert political and economic influence. Given these gaps, this paper will address the research problem by conduct a comprehensive evaluation of the renminbi internationalization.

For future study on this topic, this paper may assist in various ways. First, the paper will address a clearer picture for policy purposes as to how to navigate through the world with a greater degree of multipolarity of currencies – especially for those in interest of monetary relations or geopolitical economic diplomacy. Second, this paper will assist future research to pinpoint a more comprehensive evaluation involving in those geopolitical, historical, and economic accounts as to evaluate the currency internationalization prospects. Thirdly, the paper will serve as a springboard to provide a qualitative assessment on what were policy initiatives executed by the Chinese authorities in order to promote the renminbi internationalization.

The order of information in this thesis will be sorted by introducing an in-depth review of the literature. Under Chapter 2, the literature review will consist of six topics consisting of 1. Currency Internationalization, 2. 20th Century Dollar Hegemony and Yen Internationalization, 3. Monetary Hegemony and Hegemonic Stability Theory, 4. Renminbi Internationalization, 5. Economic Liberalism, Liberal Institutionalism, or Economic Realism, and lastly 6. Belt and Road Initiative – or 21st Century's "Debt-Trap Diplomacy"? Part of the literature review will be a review but will also entail whether I agree, disagree and why – as well as how I would use selected ideas and arguments from the research into the discussion set forth for Chapter 3 – the Methodology. Under this chapter, I will reintroduce the main hypothesis, including the three sub-hypotheses. The paper will translate empirical data into a qualitative analysis to support the reasons of the sub-hypotheses, utilizing mainly secondary resources such as academic papers, policy papers, dissertations, or news. Following this, Chapter 4 is the Findings, Results, Discussion, and Analysis. Lastly, Chapter 5 will be the Conclusion and Recommendations.

CHAPTER 2
REVIEW OF LITERATURE

2.1 Currency internationalization

Tracing back to history in order to find determinants that would point to success factors in currency internationalization may be worth noting cases of the US dollar, the Deutsche mark, and the Japanese yen – which will be elaborated in the literature review. Areas that this paper focus will include issues of the concept of issuance of an international currency, factors of currency internationalization, and the future prospects of the dollar-dominated world of global finance. Out of all, given that there is already strong dialogue on the US's decline in international financial power, such area of research on capital account liberalization will be crucial to evaluating the Chinese's prospects of currency internationalization. Here, this paper will cover the feasibility of the Chinese government's readiness on capital account liberalization – which is an area that is pivotal on whether they will accept an open capital account in order to facilitate cross-border flows of renminbi with the cost of giving up domestic allocation of credit. By definition, an international currency is considered to reach its degree of internationalization once it is used outside its domestic market (Frankel, 2012). Other imperatives quote to the extent of internationalization degree – concluding with "reserve currency status" as an ultimate end measure of international use (Frankel, 2012).

Given that there are already different variations of usage of the Chinese renminbi, it begs the question of how far the currency will be internationalized. Different views are poised to the currency of whether China would want to use its currency as far as the US dollar in terms of international trade or not – but as a scope to which government policies are implemented as intended. In different academic papers and scholarly articles on currency internationalization, government policies do play a crucial role, at least on par with market forces to how residents and non-residents value and use the currency from a local, regional, and international level. For the Chinese renminbi, its currency internationalization process is inclusive of its potential international role as Chinese central banking policies have gradually considered greater and gradual currency convertibility and financial liberalization across decades (Chen & Peng, 2010).

Some may perceive the matter of currency internationalization as a purely economic subject, but over the past 400 years, globalization has had immense impact towards all political economies, marked by characteristics of an increasing liberal exchange rate regime, freer flows (and mobility) of capital, goods, services, and labor. Economic expansion have propelled an increased in social welfare contributed to the global phenomena from different "commercial and financial hegemons" that brought along different paces of global economic expansions; the Dutch during 1500s to 1700s, followed by the British from 1700s to 1900, and the Americans succeeding thereafter (Sobel, 2014). Therefore, it is essential to identify the prospects of leadership and global hierarchy to predict prospects of global capitalism.

In an attempt to determine the prospects of the Chinese renminbi, it is best to borrow how other scholars viewed currency internationalization cases over the period of the last century. For instance, Frankel (2012) illustrated three of the most precedented cases being: 1) the US dollar (1913 to 1945), 2) the Deutsche mark (1973 to 1990), and 3) the Japanese yen (1984 to 1991). Borrowing from Susan Strange's explanation (1971), Chey (2014) identified four different classifications of currencies, such as, a "master currency" as a currency of a hegemonic or imperialistic state that coerces other states to adopt usage, with the sterling in the Sterling Area and the French franc in the Franc Zone as key cases. On the contrary, a "top currency" classified as the currency that is most favorable monetarily due to holding intrinsic properties, such as the US dollar in the 1950s, or a "negotiated currency" as inducing other governments to adopt one's currency in exchange for diplomatic (militarily or economically) support; notably the sterling during the post-war period and the US dollar in the 1960s. The last classification identified is "neutral currency" where usage has been organically adopted qualified by strong fundamentals, coupled with no promotional effort for international usage, such as, the Swiss franc and the Deutschmark during the post-war period (Chey, 2014). Therefore, this taxonomy convey the importance of political factors that will be more prevalent should they be classified as "master" or "neutral" rather the latter two (Norrlof, 2014).

Frankel (2012) described the three classic functions of money being 1) a store of value, 2) a medium of exchange, and 3) a unit of account. These three functions are considered as the main determinants of which are particular currencies are adopted and to which degree it is being used in an economy. Respectively in this order, these qualities reflect different usage for different stakeholders – private actors and governments. Given these three functions of money, Frankel (2012) lists out three reasons of why studies of currency internationalization often focus on international reserves as the key indicator of whether a currency has been considered international or not.[4] Firstly from a practical viewpoint for researchers, data on the selection and composition of central bank international reserves are far more comprehensive than the other two functions for the past 45 years. Second, international reserves imply questions on national imbalances for the United States and China - whether their current account (respectively, deficit and surplus) are sustainable; an important question for international monetary relations. Table 1 below illustrates the different roles of international currencies for different stakeholders. It was presented by (Frankel, 2012) which was modified from (Cohen, 1971) and (Kenen, 1983). Focusing on the top-right quadrant of international reserves, Frankel (2012) questioned whether the renminbi is in the same position as the US dollar during World War I, and is determining whether to rapidly ascend in rival of the US dollar. One speculation is that the renminbi will overtake the US dollar by 2022. This argument is backed by an econometric approach to different deterministic variables with an emphasis on the economies' growth rates (Subramanian, 2011).

Table 2.1

Roles of an International Currency

Function of Money	Private Actors	Governments
Store of value	Currency substitution (private dollarization)	International reserves
Medium of exchange	Invoicing trade and financial transactions	Vehicle currency for foreign exchange intervention

[4] International reserves are one of the many indicators of a currency's international use.

Function of Money	Private Actors	Governments
Unit of account	Denominating trade and financial transactions	Anchor for pegging local currency

Note: Adapted from Internationalization of the RMB and historical precedents, by J. Frankel, 2012. *Journal of Economic Integration, 27*, 329-365. Copyright 2012 by Center for Economic Integration, Sejong Institution, Sejong University.

2.2 20th century dollar hegemony and yen internationalization

In the preceding section, the various roles of money have been sketched out with different generalizations of money functions, with emphasis on the determinants of what constitute as an international currency. According to Krugman, there are two factors that determine the prospect of an international currency, as examined on the US dollar. First, an international currency should be one where is most favorable to the world markets, thus eliminating the small and emerging economies. Second, usage of that international currency that is determined by the world markets creates a self-reinforcing circularity of "medium of exchange", (the second function of money), where serving as vehicle for payments in different structure of exchanges related to the market fundamentals (Krugman, 1984). In the past 100 years, three currencies stood out to pursue currency internationalization; yet only one work. The following will focus on the US dollar internationalization process and will briefly touch upon the Japanese yen with an aim to draw possible lessons from these two countries.

2.2.1 US dollar

As of historical interest, the current dollar hegemony is a result of different dimensions of power. These elements associate dollar hegemony with profitability (seigniorage, balance of payments flexibility, etc.) and structural advantages (commercial and political) (Norrlof, 2014). Notwithstanding the natural demand for US dollar in markets, countries that are part of the US military alliance are encouraged to hold US dollars as they are dependent on security arrangements. In fact, an evidence suggests by being in a military alliance with a foreign country would reflect an increase in the foreign reserves in that currency for approximately 30 percentage points, thus understating the importance between geopolitics and monetary affairs or "international currency choice". For instance, South Korea and Japan holds approximately 80 percent of their central bank international reserves in US dollars, as America's close alliances (Eichengreen, 2017). Meanwhile, holdings of reserves in US dollars is regarded as one of the most important reasons for central banks because the dollar is an intervention currency in two ways. It would be more costly for central banks to conduct monetary operations in nondollar currencies. Once the dollars are accrued by central banks, if they want to diversify their reserves composition into nondollar currencies, it would still needed to be converted through the US dollar. Likewise, the nondollar reserves would have to be converted back into dollars if they were to do central bank interventions in foreign exchange markets (Krugman, 1984). But how did the US dollar overtook the pound sterling at first place? One possible explanation was convertibility. The level of foreign-owned liquid assets held during the inter-war period (1918-1939) was held twice more in pound than in dollars. However, that ratio had reversed in 1954 as many suspected that the dollar had took over the pound because it was convertible into gold, whereas the pound and other currencies were not convertible. Later on in 1958, the dollar was being questioned on its long-term prospects and sustainability due to a decreasing trend of the US gold reserves to dollar liabilities ratio and also increasing balance of payments deficits. Credibility of the US dollar was doubtful after its population viewed unfavorably of paying more taxes to finance the Vietnam War, resulting in the need for expansionary monetary policies. Therefore, its long-term credibility as a store of value was put into question (Frankel, 2012). In 1970, most of the currencies in the world had exchange rates that were pegged to the US dollar (Krugman, 1984). However, in 1971 the aspect of convertibility has ended after President Richard Nixon announced the closure of the gold window. This period was known famously as the Nixon Shock. Consequently, foreign central banks lost their ability to convert their US dollar reserve holdings into gold and this was designed to prevent a run of the US's gold reserves while trying to restore the US's balance of payments by influencing other countries to revalue their currencies against the US dollar (Irvin, 2013).

Dollar dominance can also be viewed with the relationship of the currency with oil export transactions. Dollar diplomacy became a forefront agenda for US diplomatic and military strategy since 1945 when President Franklin D. Roosevelt have signed an alliance with Saudi Arabia on quoting oil exports in US dollars in return with military support and the construction of an airbase. Since then, the value of the dollar has rocketed through "petrodollar recycling". During President Nixon's tenure, Congress had approved military aid to Israel which resulted in the Organization of the Petroleum Exporting Countries (OPEC) to embargo oil exports to the United States; failing to realize the strong relationship between oil and the US dollar that shot up the price of oil four times in six months and becomes self-inflicting to the OPEC instead. Since then, petrodollar recycling or petrodollar mercantilism is being "recycled" through sovereign wealth funds set up by oil-exporting countries (Refer to list of top petrodollar recyclers by assets below)[5] (Amadeo, 2019).

1. Norway Government Pension Fund --$1.073 trillion.
2. U.A.E. Abu Dhabi Investment Authority--$696 billion.
3. Kuwait Investment Authority--$592 billion.
4. Saudi Arabia SAMA--$494 billion.
5. Qatar Investment Authority--$320 billion.
6. Saudi Arabia Public Investment Fund--$223.9 billion.
7. UAE Abu Dhabi Mubadala Investment Company--$125 billion.
8. UAE Abu Dhabi Investment Council--$123 billion.
9. National Development Fund of Iran--$91 billion.
10. Russia National Welfare Fund--$66.3 billion.
11. Libyan Investment Authority--$66 billion.
12. Alaska Permanent Fund--$61.5 billion.
13. Kazakhstan Samruk-Kazyna JSC--$60.9 billion.
14. Kazakhstan National Fund--$57.9 billion.
15. Brunei Investment Agency--$40 billion.
16. Texas Permanent School Fund--$37.7 billion.
17. UAE Emirates Investment Authority--$34 billion.
18. Azerbaijan State Oil Fund--$33.1 billion.

2.2.2 Japanese yen

Japan's attempt to internationalize its currency, the yen, started during the 1980s. During that period, the world had viewed Japan as a strong and rising economic

[5] https://www.thebalance.com/what-is-a-petrodollar-3306358

power. Japan's policy, allowing its currency to be internationalized cause the Japanese yen to appreciate, concurrently to growing trade surpluses with the US. From a political standpoint, the American policymakers have attempted (but failed) to convince Japanese authorities to allow its currency's appreciation in ore to rebalance the bilateral trade between the two countries. However, with high resistance of pressure, coupled with self-determinacy, Japan's resistance shifted its monetary politics into a strategy of greater multilateralism and interventionism, spearheading cooperation among regional blocs against the members of the G5. A turning point towards Japanese monetary policy was the 1997 Asian Financial Crisis – sparking debt restructuring and requiring rescue programs from the IMF for some South East Asian countries. After the Asian Financial Crisis from 1997 to 1998, the Japanese government had prioritized their efforts to internationalize the yen. However, with their capital account fully liberalized, market forces were determining the value of their currency, and the yen was no longer a threat to the dollar hegemony. If fact, scholars viewed that Japan later supported the dollar-dominated economic order, given that it was still influential regionally in East Asia while maintaining a hedging strategy to prevent volatility in their currency, which is done through its banks and the export sector. (Katada, 2018) On the contrary, Japan also had problems with its internationalization process. According to Tett (2010), Japan's strategy was flawed by liberalizing its capital account with an underdeveloped financial center, whereas in China's view, it should have responded with prompt improvements and financial sector reform as soon as possible. In the 1980s, Japan leveraged its export-sector and the its multinational banks to promote the Japanese yen to liberalize as well as internationalize its currency. However, the drawback of this system is that the credit allocation would be biased to favor these industries, making it prone to external sector shocks as it does not encompass the small and medium-sized enterprises (SMEs). In theory, a credit allocation that is inclusive to all sectors and sizes would promote the financial depth to cushion to global volatilities (Tett, 2010). In addition to after the Asian Financial Crisis, Japan not only pushed for its currency internationalization efforts, but voiced for the setup of an Asian Monetary Fund (AMF) – but the idea was quickly demoted after strong opposition coming from the political clout of the United States and its partners, through the IMF and lacking support from regional partners – mainly China. Yet, the ASEAN+3 forum still took a progressive development in coming forward with the Chiang Mai Initiative (CMI) that allows countries to establish a network of bilateral swap lines to reassure regional central banks in times of liquidity shortages. Thus, the case of Japan infers the degree of fragmentation in monetary cooperation within the region and outside the region, causing the lack of development of regional currency cooperation. Without support from non-Western countries especially China, emerging economic powers are at disadvantage in developing disruptive financial cooperation in East Asia that may gravitate the shift out of Western domination. Notably, the case of the Japanese yen internationalization shows that its liberalization worked against its objective as large Japanese multinational corporates chose to transact with the US dollar as most of their export destination went to the US market, coupled with the Japanese stagnation in the 1990s.

2.3 Monetary hegemony and hegemonic stability theory

Rapid economic growth by the emerging economies have forced economists to rethink about the dynamic change of the international monetary system. The current economic order today was built upon the American hegemonial unipolar monetary system, with the objective of global peace by interconnecting nation states with trade independence and shared values. A market-based, liberal order was the key central norm to shape the current international monetary system today (Dailami & Masson, 2009). From a theoretical approach, an economic historian, Charles Kindleberger, have introduced the "Hegemonic Stability Theory", which argued that only a successful nation-state leader can unilaterally construct the rules of global economy, thereby stabilizing and managing the world's affairs. Here on the basis of an extension of constructivism, Kindleberger viewed the "system leader" as the only provider of five main collective goods: "1) Maintaining a relatively open market for distress goods; 2) Providing countercyclical, or at least stable, long-term lending; 3) Policing a relatively stable system of exchange rates; 4) Ensuring the coordination of macroeconomic policies; and 5) Acting as a lender of last resort by discounting or otherwise providing liquidity in financial crisis" (Kindleberger, 1981). Building upon Kindleberger's suggestion, these attributes reduce an environment of hostility among nation-states in the attempt of damaging actions such as free-riding, distrust, short-term electoral pressures, predatory policies (Kindleberger, 1981). As a result, a liberal hegemon, under the Hegemonic Stability Theory will increase international cooperation by fostering monitoring and accountability, and in turn, increases defection costs and decreases temptations that are a threat to global political and economic stability (Kindleberger, 1981). The fundamental belief of this theory is that the international economic system is most likely stable when in times when there is an existence of one hegemonic state which is relatively larger than other states and is willingly, and actively taking initiatives to provide the public good in order to remain its leadership. Therefore, the US as a hegemon in decline would be entailed by the inclusion of the renminbi into the IMF's SDR basket of currencies in 2016 demonstrated an emergence of a multi-polar system of currencies belonging to the important economic powers (Jiránková, 2011).

2.4 China's economic domestic policies

The origins of the high accumulation of foreign exchange reserves for China comes from its ideology of great statist nationalism; a form of governance that prioritizes the state's wealth accumulation given the belief that a strong state will lead to a strong economy. The downside of this ideology is that it suppressed domestic consumption, and yet relies heavily from exports entirely. From this political ideological standpoint, various political efforts had promoted this optimization of state wealth over the standard of living of the population in different areas – for instance, a strong state would require high fiscal surpluses stemming from large government revenues and a large central bank foreign exchange reserves. Central bank reserves are often for maintaining low exchange rates to foster its export-led growth national development strategy; thus hindering the level of imports from a weak currency. In other countries, reserves is the sign of assurance against external volatilities and shocks. For China, large devaluation of its currency have affected the interest groups' operations. These effects, however, do not impose pressure on the Chinese political system, since the authoritarian regime prevents public access to the involvement of the private sector to its government policy making processes. Hence, this mercantilist mentality complicates political and lobbying groups, as certain industries advocated to influence policy making, including the level of exchange rate – resulting in a solid "no devaluation policy" that limited any significance lobbying groups have with the political and policy making level (H. Wang, 2014).

Alternatively, many businesses then shifted away from attempting to influence the monetary side of policies to requesting compensation on taxation. Therefore, it is substantial for the Chinese political system to exert authoritarian style of discretion and formulate interventionalist policies to insulate itself from interest groups and lobbyist pressure.

CHAPTER 3
RESEARCH METHODOLOGY

3.1 Review of RMB internationalization

3.1.1 What is RMB internationalization? What have they done? And briefly why?

Internationalizing the renminbi is in line with China's significant economic growth during the past 30 years, its rapid development of its international trade, the long-term stability of its macro-economy, and its reform of the foreign exchange system. An international currency is considered to be international if it is used for offshore trade and investment (Windsor & Halperin, 2018). For the renminbi to be internationalized, the country's monetary authority will require the political will to pursue over the tradeoffs of concerns over domestic stability as there are several risks that lies ahead (Katada, 2018). So far, the internationalization process has been quite smooth, just as the Chinese saying of an approach of crossing the river by feeling the stones, taking one step at a time. In this regard, the government had made sure to take small policy steps one at a time in avoidance of mistakes (Otero-Iglesias, 2011). Charles Kindleberger have once said "a country's exchange rate is more than just a number. It is an emblem of its importance to the world, a sort of international status symbol" (Otero-Iglesias, 2011). Given the growing importance of the Chinese economy in the world today, China has taken various initiatives to internationalize the renminbi. Otero-Iglesias (2011) outlined China's internationalization process by summarizing as using a "two-track approach" which not only promoted renminbi usage for trade but also for investment. Under this "investment track", China uses its financial market in Hong-Kong as a prototype for its internationalization strategy to encourage the issuance of RMB-denominated bonds by the private sector and commercial banks.

3.1.2 Pros and cons of RMB internationalization

Despite the lack of a specific date to which the renminbi internationalization, Chinese scholars and policy makers have long debated on whether the renminbi should be internationalized or not as the policy yields different pros and cons. Following the market reforms led by Deng Xiaoping since 1979, the latter years of the 1980s mark the initial public remarks on the pros and cons in anticipation of simply, what should be done with the currency given the successful economic growth. Consequently, policy questions preceded with what reforms were the prerequisites, what were the most optimal policy sequencing, and how proactive were authorities supposed to be (Cohen, 2017)? Meanwhile, internationalizing any hypothetical currency yields certain benefits. Of the main determinants is the monetary returns, called international seigniorage. Hai and Yao (2010, pp. 139-163) argued that the main beneficial feature of an international currency is the international seigniorage earnings. Central bank seigniorage revenues are monetary gains from the difference of the face value of a currency versus its cost of production, e.g. costs of printing banknotes. To earn the international seigniorage, a government may issue currency to benefit from the implicit gains from the difference of the face value and the printing cost. As an estimation given the latest data of 2006, the total international seigniorage revenue is 66.6 billion yuan (Hai & Yao, 2010). Here below in Table 3.1 outlines the pros and cons of internationalizing a currency.

Table 3.1

Benefits and Risks of the International Use of the Chinese Renminbi

Pros (Benefits)	Cons (Risks)
1. Seigniorage essentially allows China to borrow in the international financial markets in its own currency, assuming relatively high liquidity of the renminbi has been achieved, while foreign holdings of the renminbi act as low interest loans to China	1. Fluctuations/volatility from international currency demand will add to monetary policy complications especially in a flexible exchange rate regime or pegged exchange rate regime
2. Increase business for domestic financial institutions can attract ease of business for Chinese domestic financial institutions and large businesses, reinforcing the liquidity of the renminbi in the international financial markets	2. Appreciative pressure from increase in average currency demand and adverse effects resulting from a strong currency to domestic exporters

Pros (Benefits)	Cons (Risks)
3. Reduction of exchange rate risk can be avoided once domestic residents transact in their own currency, transferring the risk burden to international counterparts	3. Increase in responsibility from the international community to maintain financial stability, resulting in possible monetary dilemma between international and domestic objectives
4. Convenience and prestige for domestic residents and geopolitical initiatives such as the Belt and Road Initiative	

Note: Adapted from "The potential of the Renminbi as an international currency," by H. Chen & W. Peng, 2010 in W. Peng & C. Shu (Eds.), *Currency internationalization: Global experience and implication for the Renminbi*. Copyright 2010 by Palgrave Macmillan.

3.1.3 RMB international proponents

Different factions within the Chinese economy voiced mixed views. Initially, the Chinese government committed its renminbi internationalization process in 1993, aiming to achieve full currency convertibility by the year of 2000. However, the Asian Financial Crisis (AFC) in 1997 stalled the full convertibility target (Park, 2016). Nevertheless, policy endorsement for the wider use the renminbi remained stagnant, even after the AFC. Supporters were those from the central bank, clearly signaled after a report by the People's Bank of China (PBoC) titled as "The Timing, Path, and Strategies of RMB Internationalization" in 2006 was released. Here, PBoC officials argued for the internationalization providing supportive reasons such as the enhancement of the country's international status and competitiveness, while also increasing the country's international economic soft power (Cohen, 2017). Moreover, the report quoted perceived enjoyment of "a rise in power standing", thus convincing a stance of seizing the opportunity in line with the country's expanding geopolitical ambitions and initiatives.

3.1.4 RMB internationalization opponents

Those that oppose the internationalization of the renminbi are Chinese manufacturers and financial institutions (mainly state-owned banks) that have benefited from the government's autocratic control over credit allocation and interest rates (Cohen, 2017). Nevertheless, this shouldn't be an obstacle as these firms are state-owned and can be easily directed by the national strategy plans. Some mixed views were visible as those concerned may not be entirely opposed with the internationalization itself but merely against four main concerns regarding the potential risks entailed from the liberalization of the Chinese capital account – 1) Weakening of China's monetary policy effectiveness against speculative capital flows, 2) increasing of volatility and fluctuation of exchange rates, 3) potentially reversing the double surplus of the Chinese current account with debt, and 4) increasing competition for Chinese financial institutions (Cheng, 2014).

Three issues simultaneously question the ability of a successful internationalization of the renminbi. Firstly, from a domestic front, an important opposing force is the viewpoint of having to develop its financial markets (to increase the financial depth) as well as liberalizing its capital account for both residents and nonresidents to have no discriminated access to the Chinese renminbi. Secondly, from the external front, internationalizing the renminbi would require persuading its immediate trading partners to factor in the renminbi into their respective foreign exchange policies – which is speculated as a "Renminbi Zone" with China's neighboring trading partners. Lastly, from the regional point of view, the Chinese economy and its so-called "Renminbi Zone" must be comparatively as large as how the United States' dollar dominance is internationally, and the same applies with the Eurozone with the European Union (Kwan, 2018).

3.1.5 Those who think RMB internationalization will work

Several academics have published a positive conclusion for the prospects of the renminbi for several of the following reasons. Firstly, the launch of the crude oil benchmark under the Shanghai exchange would be regarded as the end of dollar-dominance and the petrodollar. This was largely based on the fact that China overtook the United States as the world's largest importer of oil in 2017; and that could have implications on a shift in the use of currencies for oil transactions. However, it is noted that without the participation of both Russia and Saudi Arabia, the internationalization cannot be fulfilled (Salameh, 2018). Secondly, the acceptance of the renminbi into the IMF's Special Drawing Rights (SDR) basket of currencies in 2015 without having to forgo full convertibility, which is one of the criterions, was successful for China as they managed to substitute it with their own concept of "managed convertibility" (Thimann, 2010). This is, according to PBOC's Governor Zhou Xiaochuan declared continuance of managing their capital account by using macro-prudential policies to limit risks arising from cross-border capital flows, or to promote the renminbi's stability (Paltschik, 2016). Third, from a historical context, China's successful resistance to pressures by the United States to readjust their value of the currency in order to "share the burden" as typically required when a huge US trade deficit occur, implies that China remains undisputed and unchallenged by assertions from the United States, such as the Japan's dollar/yen negotiation in 1985 and South Korea's dollar/won negotiation in 1989. China, on the other hand, responded with a small revaluation in 2005 and a sudden switch to a tightly managed float against a currency basket to diffuse economic tensions (Bowles & Wang, 2006).

3.1.6 Those who think RMB internationalization will fail

While a large sum of literature account reflected optimist prospects for the renminbi internationalization, there were a few hindrances that believed that the process may fail. An argument was that the dollar dominance was created with the multilateral financial institutions created after WWII, and such internationalization of the renminbi to arise would require an overhaul of the governance in these institutions.[1] Moreover, there was never any sustained commitment by China in developing the renminbi as an substitute to the dollar, and instead, China had been cooperative to urge a reform of the international monetary system – one where the international currency should be stable and not be based upon a credit-based economy to safeguard economic and financial stability. Among the other reasons not to expect the renminbi to be an international currency soon includes China's own small usage of the currency for international trade (Subacchi, 2017).

The Chinese monetary authorities have always attempted to internationalize their currency just before the year 2000 (Shu, 2010). And since the Global Financial Crisis in 2008, there was a pickup in the political will to address the external monetary vulnerabilities from their dependency of the US dollar (Gao, 2010). As a famous evidence, appearing in a speech in 2009, China's former central bank governor, Dr.

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[1] A famous essay by former PBOC Governor, Dr. Zhou Xiaochuan called for a "creative reform of the international monetary system towards an international currency with a stable value, rule-based issuance and manageable supply" (Xiaochuan, 2009).

Zhou Xiaochuan had famously called upon a reform of the international monetary system. He reintroduced the attempt of the "Bancor" proposed by John Maynard Keynes, which was based on 30 commodities, but failed. Subsequently before the collapse of the Bretton Woods System, the International Monetary Fund had created the Special Drawing Rights (SDR) in 1969 (Xiaochuan, 2009). Such internationalization is possible, but at the cost of domestic institutional reforms that must overhaul the domestic financial institutions – being one of the questionable constraints of political capacity (Otero-Iglesias & Vermeiren, 2015). Notwithstanding this decade-old recommendation, China may seek to take advantage when such an opportunity arises to reorganize the governance of the Bretton Woods international financial institutions (i.e. IMF, etc.), to increase Chinese policy autonomy (Kwon, 2015).

3.2 Economic liberalism, economic institutionalism, or economic realism

The international monetary system is everchanging as the share of balance of power is shifting towards the G7 to the emerging markets and developing economies. According to Armijo and Echeverri-Gent (2014), the emergence of groups such as ASEAN (Association of South East Asian Nations), BRICS (Brazil, Russia, India, China, and South Africa), and other developing economies have brought into a three mental models that can be characterized by the mood of how global finance can be an absolute or relative gain for different perspectives **(Li & Liu, 2010)**. In support of many scholars that usually emphasize that the world system is usually governed and led ideologically by the dominant core nations – in spite to maintain the status quo or their influence, most nations are often caught into different "composite perspectives" that bonds the traditions of different scholars from different periods of times. As a framework, Armijo and Echeverri-Gent (2014) have presented a table of the different mental models in international finance as the following illustrated in Table 3.2 (Armijo & Echeverri-Gent, 2014)

Table 3.2

Mental Model International Finance

	Economic Liberalism	Liberal Institutionalism	Economic Realism
Organizing Principle(s) of International Economy	Free markets	Institutions cooperation	State power
Modal Adherents	US and European economists and business; many politicians	US and European social scientists; some politicians	Emerging economy policymakers
Issue: Capital Account Liberalization	Efficiency-enhancing, and problems result from poor emerging economies domestic policies	Learning and multilateral cooperation can resolve transitional problems	Systematic allocation of risks to emerging economies, and undercuts emerging economies catch-up policies and FX reserves buildup
Issue: Key Currency Role of the US dollar	Dollar hegemony is market-driven	Fragile and constructed, and likely a public good	'Original sin' versus immense benefits for the US
Issue: Lessons of Global Financial Crisis (2008-2009)	Problems with incentives, and regulatory fallacy of composition	Need for cooperative global regulation, and need to expand global governance clubs (or institutions)	Biased application of rules, and good opportunity to promote global influence shift (or reform)

Note: Adapted from "Absolute or relative gains? How status quo and emerging powers conceptualize global finance," by L. E. Armijo & J. Echeverri-Gent, 2014. In T. Oatley & W. K. Winecoff, *Handbook of the international political economy of monetary relations* Copyright 2014 by T. Oatley & W. K. Winecoff.

Supporting currency internationalization initiatives thereby adhere to different viewpoints as illustrated in Table 3, and is very much dependent on the characteristics of one's economy. By this context, during the mid- to late- 1990s, the issue of capital account liberalization was debated intensely on whether nations should remove barriers to cross-border flows of capital – a deregulation that divides between supporters and opponents (Overholt, Ma, & Law, 2016). Should financial globalization be the goal for accelerating global wealth through foreign direct investments, portfolio investments, and financial services, the global capital account's degree of openness may also pave way for increasing economic growth and welfare. As quoted by the then

Deputy Managing Director of the IMF, Stanley Fischer, “Free capital movements facilitate an efficient global allocation of savings and help channel resources into their most productive uses, thus increasing economic growth and welfare. From the individual country’s perspective, the benefits take the form of increases in the pool of investible funds and in the access of domestic residents to foreign capital markets” (Armijo & Echeverri-Gent, 2014). This implies that international capital flows have positive results in creating jobs for developing countries as flows from capital-abundant countries would be directed to investments in labor-abundant developing countries – which academics would see this as a way to reduce income disparities. On the other hand, Kim and Song (2010) finds that although certain governments, such as in South Korea, had focused on capital account liberalization after the 1997 financial crisis. The significant downside to this policy is the unintended creation of arbitrage opportunities – contributing to financial market imbalances.

3.3 Belt and road initiative – or 21st century’s “debt-trap diplomacy”?

The Belt and Road Initiative is an ambitious plan that consists of two routes covering land and sea to enhance the flow of trade, investment, services, and capital across regions of Asia, Middle East, Europe, and Africa. Just this BRI alone, the expansion in maritime routes and land infrastructure networks will involve more than 60 percent of the world’s population (HSBC Bank plc, 2017). China’s global influence in projecting both hard and soft power is in the rise. Yet, despite its efforts through “win-win mutual development”, countries are starting to show signs of debt distress to the extent that Chinese’s public diplomacy efforts were viewed by critics as “predatory economic practices” or even a new form of financial imperialism (Dodwell, 2018). To balance these claims out, the Center for Global Development Study, a think tank based in the U.S., evaluated debt-related risks and identified eight out of 23 debt-distressed countries that are highly critical of “sovereign debt default” risks due to China’s BRI (Cheang, 2018). Among the 23 countries, two Southeast Asian nations, Cambodia and Myanmar stood out to be countries that have received Chinese public diplomacy activities and have incurred high government debt-to-GDP levels.

A terminology was coined to conceptualize China's geopolitical diplomacy in resolving debt defaults by Brahma Chellaney as the "Debt-Trap Diplomacy". Chellaney hypothesized Chinese debt relief practices are done through undertaking economic expropriations or political concessions (Venkataramakrishnan, 2017). Consequently, if burden with excessive levels of debt, this will not only hinder the countries' economic growth and public investments, but also indirectly result in "unfavorable degree of dependency to China" (Morris & Potelance, 2018). As signs of debt distress is unfolding among borrowing countries, it is crucial to explore the relationship between China's public diplomacy efforts and the relationship between Chinese projects that beneficiary countries are to receive.

From the year of 2003, China's rise in political, economic, and social spheres of the international system were motivated by its great ambitions of global acceptance (Zhao, 2015). The strategic motives of its rise were powered by its operations of public diplomacy activities. Although, Keijin Zhao (2015) finds that there is still no conclusiveness on the strategic motivations behind China's public diplomacy efforts, China's assistance in some of the poorest nations, such as in Cambodia and in Lao P.D.R. are impacting from political, economic, and social roles. Heng Pheakdey (2012). conceptualizes on China's involvement in assistance to its neighbors brings upon two binary opposing thoughts. He suggests that one group would positively view China's contribution as a helpful towards the countries' national development whereas the opposing group would view that the foreign assistance would bring upon corruption and governance-related problems (Pheakdey, 2012). In this regard, it is thus important to view to which degree does China's involvement is highly desirable by its neighbors. As Zhao (2015) had pointed out about the unclear (or inexplicit) strategic intentions of China, he concludes that China's public diplomacy activities will become more systematically-designed to complement with its broader high-level international strategy such as the BRI (Pheakdey, 2012). (Refer to map of the Belt and Road Initiative in Figure 4.8.)

3.4 Objectives

The major objective of this paper is to evaluate the prospects of the Chinese renminbi currency internationalization by involving a comprehensive evaluation of theoretical approaches, historical case studies, and available data. The objective is at crucial importance as the goal for China to internationalize its currency have serious implications for the global monetary environment, in contributing to the international monetary system. As the global financial environment shifts towards less reliance on the US dollar, several alternatives prop up to substitute – creating greater multipolarity use of currencies, and possibly greater uncertainty in the stability of the system as well. This paper is to examine the feasibility, attractiveness, and support of the Chinese internationalization of the renminbi by using historical case studies and IR theories to predict the concepts and requirements on currency internationalization processes and usage. By defining concepts and requirements to select opportunities and identify global awareness by other central banks, the paper would fulfill the objective of exploring and generating possible ideas or even alternatives against the leading global currencies.

3.5 Methodology

Qualitative methods with inductive reasoning.

3.6 Methods

For this research's methods, the analysis in projecting the prospects of the renminbi internationalization is conducted into two parts, employing qualitative aspects. The first part analyzed from an updated stock of charts to discuss the main indicators of gauging the internationalization of the renminbi. The paper then attempts to qualitatively explain the positive/negative trends of the renminbi internationalization process. The paper used Charles Kindleberger's Hegemonic Stability Theory to describe the emergence of the multi-polarity of the international currencies and whether China can support the global economic system by providing the theory's five collective goods, namely: "1) Maintaining a relatively open market for distress goods; 2)

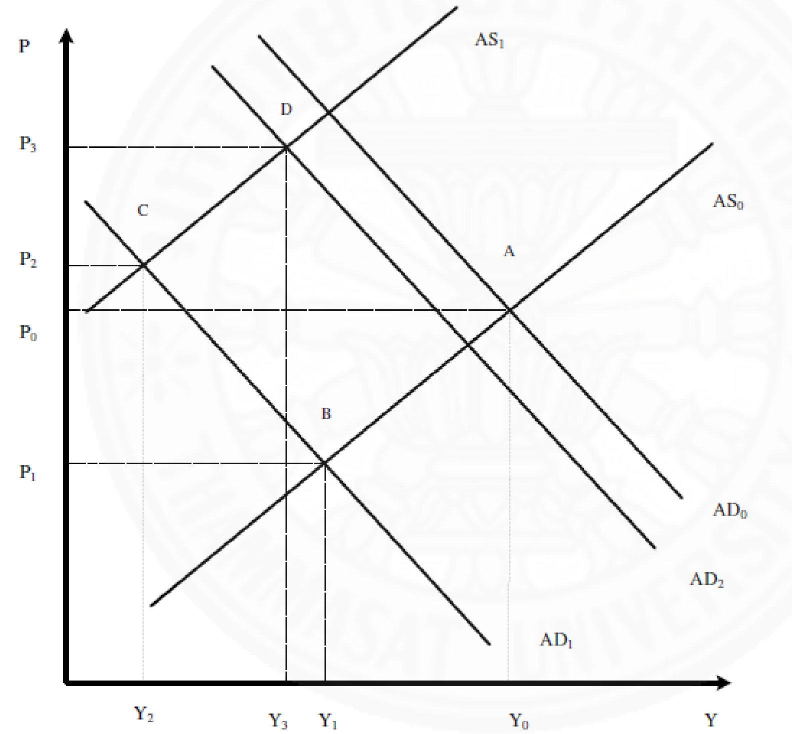
Providing countercyclical, or at least stable, long-term lending; 3) Policing a relatively stable system of exchange rates; 4) Ensuring the coordination of macroeconomic policies; and 5) Acting as a lender of last resort by discounting or otherwise providing liquidity in financial crisis" (Kindleberger, 1981).

This will be done by gathering identified theories related to currency internationalization and monetary relations with respect to international relations. Measuring the prospects of the Chinese renminbi's currency internationalization prospects also involves utilizing historical case studies of other currencies' internationalization successes and failures as learning grounds. Data will be gathered as much as available, notably the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) as a proxy to indicate the degree of currencies achieving "reserve currency status". The timeframe that was chosen as part for this study varies among different graphs reproduced and borrowed. At the bare minimum, the earliest timeframe would be approximately in the 1960s. This is because the period during the Mid-1960s as the American economy went into a significant recession and the Fed had attempted to recover the situation of global developments by using monetary policies that had international implications, yet resulted in shockwaves through financial interlinkages. Other graphs that were reproduced, followed the timeframe after the Nixon Shock in the early 1970s onto present time, following the collapse of the Bretton Woods system.

Another method that this research has built upon further is through the utilization of the Mundell-Fleming Model that was applied by Wang et. al. The Mundell-Fleming Model is an economic theory to explain the (short-run) relationship between the interest rate, output, and nominal interest rate, typically as a simplification for small-open economies. The original Mundell-Fleming Model assumes that this is a small-open economy, and interest rates are determined by the world's interest rates. Wang (2012) contributes to the analysis by interpreting an application of this model onto China whereby the importance of Chinese government policies and their behavioral changes ultimately results in the shift of the Aggregate Supply Curve (AS) from AS_0 to AS_1; resulting lower output and higher price levels at Point D (Y_3 and P_3). The reason behind Wang's (2012) contribution was the accumulation of raw materials held by Chinese state enterprises were extremely influential due to high degree of monopolization (in areas such as electricity and coal) and such aggregate level of prices are not set in a competitive market-determined environment. (Refer to Figure 3.1 below.) The paper concludes that the shift of the Aggregate Supply curve provoked the Chinese authorities that providing exclusivity rights to distorted priced raw materials to monopolized state enterprises will no longer be a sustainable economic plan as it hurts the GDP.

Figure 3.1

Changes in the Mundell-Fleming Model by Government Behaviors



Note: Reprinted from *The change of the value of the RMB and its influences on China*, by D. Wang, A. Zhou & D. Wang, 2012. MPRA paper 43733.

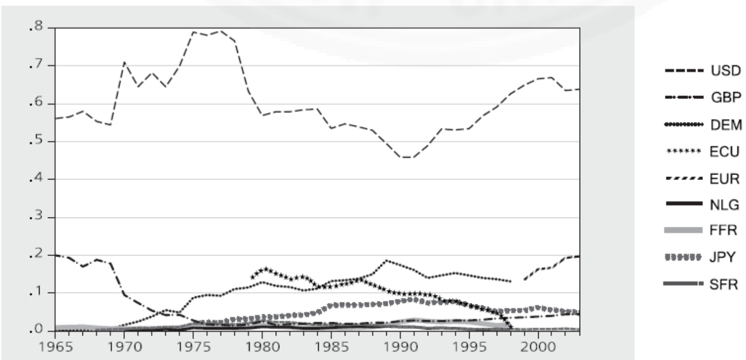
3.7 Hypothesis

The main hypothesis for this paper is there will be a greater degree of internationalization of the renminbi, but not to the international currency status within the next ten years (medium-term prospect). The renminbi may achieve only regional currency status given that high dependency of the success rate of the Chinese geopolitical strategy, IFIs' support, and its own domestic policies promotion. Under this main umbrella of the main hypothesis, three sub-hypotheses are to solidify this paper. Firstly, the renminbi is already achieving regional currency status. Secondly, there IFIs are lagging to support the Chinese renminbi's internationalization plans. Thirdly, China's domestic policies cannot fully support the currency internationalization agenda given its current limitations on its domestic front as well as the ongoing trade war with the United States.

There are various ways to quantify the prospect of an international use of a currency. One of the indicators of measuring the degree of internationalization of a currency is to evaluate the global share of that currency in the reserves held by every central bank in the world. Thus, this paper has conducted a time-series analysis on the composition of foreign exchange reserves, using the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) as the main source, while remaining open to other data sources. This analysis builds on Frankel's findings that compares the reserves composition data between 2001 with 2011 (Frankel, 2012). It is said that the international use of a currency should be assessed independently to each variable. However, given limited data on other international functions, the usage of the currency for central bank reserves is an appropriate proxy for an overall degree of internationalization of a currency (Chen & Peng, 2010).

Figure 3. 2

Reserve Held by Central Banks as Shares of Total – Major Currencies, 1973-2010



Note: Estimated currency shares of reserves of all central banks, year end, 1965-2003. "Other currencies" omitted.
Source: IMF, *Annual Reports*, Chinn and Frankel (2008), Chinn (2012).

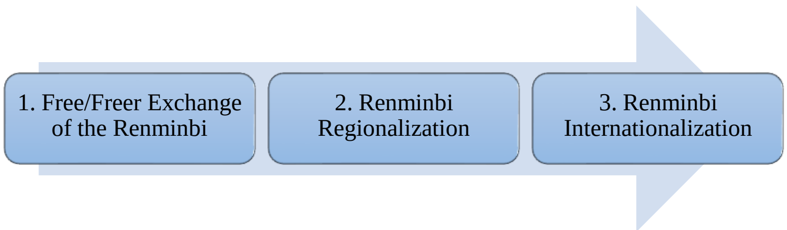
Note: Reprinted from "Internationalization of the RMB and historical precedents," by J. Frankel, 2012. *Journal of Economic Integration*, 27, 329-365.

3.8 Conceptual framework

Currency internationalization can be phased out into three granular steps, an idea proposed under Figure 10 (Xia, 2018). Firstly, the renminbi will have to be more convertible (free exchange of the RMB). Secondly, it is best for the renminbi to gradually regionalize (RMB regionalization). Lastly, the degree of internationalization is based upon the adoption of users apart from that regionalization, given factors that encourage the currency to be considered international. Figure 11 not only simplifies or introduces to us one possibility behind the Chinese policy makers' thinking on how far they want to take their currency internationalization initiative – it also shines light onto perhaps China had never had yet the full intention to internationalize, but rather to merely regionalize based on their trade route in support with the Belt and Road Initiative. To evaluate based on these criterions, this paper has reviewed the Bank of International Settlements (BIS) latest Triennial Survey. Building upon this simplified progression, and to incorporate my three main hypotheses: geopolitical strategy (Belt and Road Initiative), international financial institutions' support (New Development Bank and Asian Infrastructure Investment Bank), and domestic policy in China (structural reforms for financial stability), I have modified the framework to Figure 11. Here, the conceptual framework shows greater graduality to the sequencing of internationalization process – adding the pursuance of CAL, and creating Chinese-led IFIs, as well as the promotion of renewable energy.

Figure 3.3

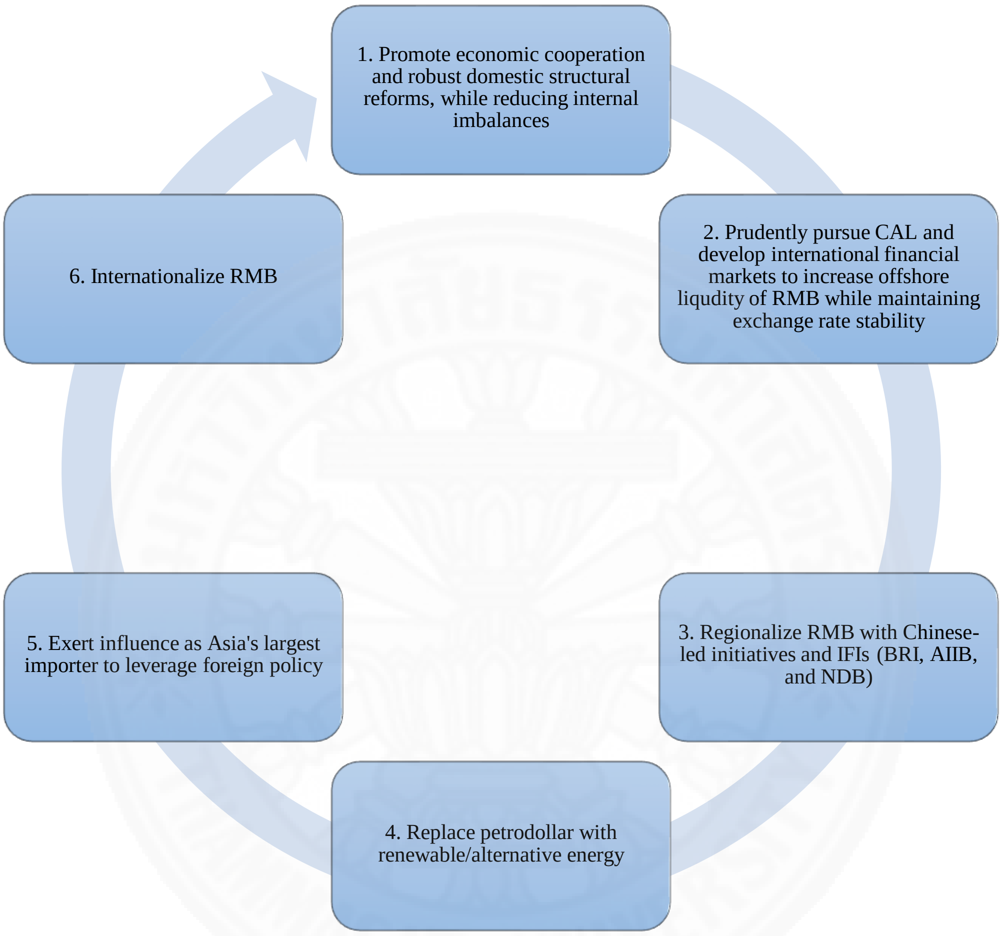
Path Selection for the Renminbi



Note: Adapted from "Path selection of Renminbi (RMB) internationalization under "the Belt and Rod" (B&R) initiative," by S. Xia, 2018. *American Journal of Industrial and Business Management, 8*(3), 667-685.

Figure 3.4

Conceptual Framework of RMB Internationalization



CHAPTER 4
RESULTS AND DISCUSSION

4.1 Findings and data interpretation

Findings from various data sources revealed a slow but gradual progress for the renminbi internationalization overall. The BIS's latest Triennial Survey suggests that 88 percent of all foreign exchange trades are still conducted by using the US dollar. On the contrary, the renminbi accounts for just four percent overall – suggesting difficulties to challenge the US dollar anytime in the short-term outlook. The US dollar, in simplified terms, still holds "dominant currency status", according to the Report from BIS. Coming in second is the Euro at 32 percent for all trades, slightly increased from the previous years. One significant turnout is the fall in the usage of the Japanese yen by around five percentage points. Given that China's capital control are still in placed to protect foreign interests into its market, the limit hinders the renminbi internationalization as well unless it allows the currency to be traded more freely. Depicted below is the highlighted turnover of the US dollar (USD) and the Chinese renminbi (CNY) from the Report. According to the Report, although the renminbi is relatively low, and did not move up the global ranks of currency in terms of usage in trade transactions, its growth from previous years remained strong and relatively faster than the other currencies – finalizing as the eighth most trade currency in the world as of 2019.

After revising this dataset, certain ideas build upon the finding as to whether it was intentional for the Chinese authorities to not speed up the usage of the renminbi. One possibility under this analysis is whether the renminbi internationalization is dual-tracked and whether this process will go pace-to-pace with its Belt and Road Initiative to promote the renminbi regionalization first.

Table 4.1

Bank of International Settlements Triennial Survey 2019

BANK FOR INTERNATIONAL SETTLEMENTS

Table D11.3

Turnover of OTC foreign exchange instruments, by currency

"Net-net" basis, April 1989-2019 daily averages, in billions of US dollars

Currency	1989		1992		1995		1998		2001		2004		2007		2010		2013		2016		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
USD	485	90	668	82	981	83	1,325	87	1,114	90	1,702	88	2,845	86	3,371	85	4,662	87	4,437	88	5,819	88
EUR	...	...	...	...	...	...	...	...	470	38	724	37	1,231	37	1,551	39	1,790	33	1,590	31	2,129	32
JPY	151	28	190	23	291	25	332	22	292	24	403	21	573	17	754	19	1,235	23	1,096	22	1,108	17
GBP	78	15	112	14	110	9	168	11	162	13	319	16	494	15	512	13	633	12	649	13	844	13
AUD	13	2	20	2	31	3	46	3	54	4	116	6	220	7	301	8	463	9	349	7	445	7
CAD	8	1	27	3	40	3	54	4	56	4	81	4	143	4	210	5	244	5	260	5	332	5
CHF	52	10	69	8	85	7	108	7	74	6	117	6	227	7	250	6	276	5	243	5	327	5
CNY	...	...	...	...	...	...	0	0	0	0	2	0	15	0	34	1	120	2	202	4	284	4

Note: Reprinted from "Bank of International Settlements Triennial Survey 2019" by Bank of International Settlements, 2019. Copyright 2019, Bank of International Settlements.

Table 4.2

International Monetary Fund Currency Composition of Official Foreign Exchange Reserves (COFER)

World Currency Composition of Official Foreign Exchange Reserves

US Dollars, Millions

	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2
Total Foreign Exchange Reserves	10,935,338.70	10,977,009.95	11,004,743.61	10,727,114.08	10,912,069.57	11,133,058.53
Allocated Reserves	7,765,676.68	8,057,239.18	8,353,543.58	8,418,344.74	8,833,284.79	9,256,969.34
Claims in U.S. dollars	5,082,307.63	5,253,967.15	5,403,585.41	5,502,001.78	5,713,295.29	5,909,139.88
Claims in euro	1,517,744.66	1,563,167.12	1,643,094.69	1,610,817.51	1,703,073.29	1,847,130.15
Claims in Chinese renminbi				90,287.85	94,888.27	99,449.72
Claims in Japanese yen	285,758.22	330,423.68	351,309.10	333,697.17	400,762.76	428,603.00
Claims in pounds sterling	359,543.88	365,812.17	366,720.68	365,093.49	376,979.18	408,668.51
Claims in Australian dollars	133,561.86	136,878.49	150,088.17	142,098.37	155,980.62	161,871.09
Claims in Canadian dollars	140,377.59	147,673.98	159,851.51	163,143.35	167,491.76	178,770.11
Claims in Swiss francs	14,925.45	14,439.26	14,897.56	13,899.18	14,752.40	16,034.82
Claims in other currencies	231,457.40	244,877.33	263,996.46	197,306.04	206,061.22	207,302.05
Unallocated Reserves	3,169,662.02	2,919,770.77	2,651,200.02	2,308,769.34	2,078,784.78	1,876,089.19
Shares of Allocated Reserves	71.01	73.40	75.91	78.48	80.95	83.15
Shares of U.S. dollars	65.45	65.21	64.69	65.36	64.68	63.83
Shares of euro	19.54	19.40	19.67	19.13	19.28	19.95
Shares of Chinese renminbi				1.07	1.07	1.07
Shares of Japanese yen	3.68	4.10	4.21	3.96	4.54	4.63
Shares of pounds sterling	4.63	4.54	4.39	4.34	4.27	4.41
Shares of Australian dollars	1.72	1.70	1.80	1.69	1.77	1.75
Shares of Canadian dollars	1.81	1.83	1.91	1.94	1.90	1.93
Shares of Swiss francs	0.19	0.18	0.18	0.17	0.17	0.17
Shares of other currencies	2.98	3.04	3.16	2.34	2.33	2.24
Shares of Unallocated Reserves	28.99	26.60	24.09	21.52	19.05	16.85

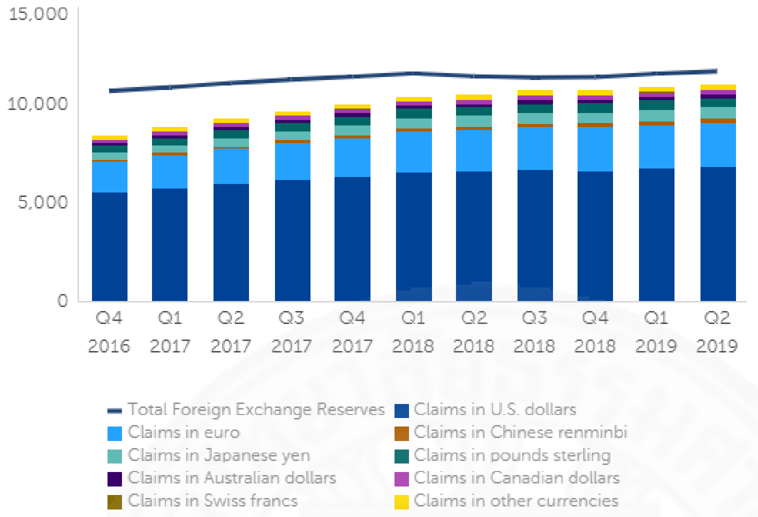
	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2
Total Foreign Exchange Reserves	11,307,920.09	11,457,882.22	11,617,504.02	11,481,336.46	11,411,176.60	11,435,818.52	11,607,014.65	11,732,569.03
Allocated Reserves	9,642,680.47	10,014,013.71	10,402,600.87	10,515,275.81	10,707,901.60	10,728,215.17	10,899,006.27	11,021,225.42
Claims in U.S. dollars	6,125,372.13	6,280,576.82	6,531,292.99	6,561,092.78	6,631,625.37	6,623,362.69	6,742,183.62	6,792,225.70
Claims in euro	1,934,641.70	2,019,172.98	2,117,504.91	2,129,348.13	2,192,128.19	2,217,371.63	2,205,243.40	2,242,712.88
Claims in Chinese renminbi	108,155.27	123,473.32	145,667.41	192,750.33	192,635.82	202,869.19	212,694.85	217,643.88
Claims in Japanese yen	436,192.14	491,011.33	477,280.55	511,517.74	532,569.37	557,646.99	571,700.41	596,609.72
Claims in pounds sterling	433,282.52	454,119.34	486,127.78	469,863.68	480,734.01	474,166.47	494,419.38	488,561.28
Claims in Australian dollars	170,762.38	180,009.14	176,960.81	178,610.50	180,605.40	173,951.72	182,476.14	187,572.04
Claims in Canadian dollars	192,885.45	202,797.87	193,294.98	200,214.51	208,725.91	197,216.33	209,249.10	211,057.43
Claims in Swiss francs	16,530.33	18,088.67	17,934.91	17,180.81	17,170.11	15,294.50	15,282.34	15,808.79
Claims in other currencies	224,858.57	244,764.24	256,536.54	254,697.35	271,707.41	266,335.65	265,757.03	269,033.71
Unallocated Reserves	1,665,239.62	1,443,868.51	1,214,903.15	966,060.64	703,275.00	707,603.34	708,008.38	711,343.61
Shares of Allocated Reserves	85.27	87.40	89.54	91.59	93.84	93.81	93.90	93.94
Shares of U.S. dollars	63.52	62.72	62.79	62.40	61.93	61.74	61.86	61.63
Shares of euro	20.06	20.16	20.36	20.25	20.47	20.67	20.23	20.35
Shares of Chinese renminbi	1.12	1.23	1.40	1.83	1.80	1.89	1.95	1.97
Shares of Japanese yen	4.52	4.90	4.59	4.86	4.97	5.20	5.25	5.41
Shares of pounds sterling	4.49	4.53	4.67	4.47	4.49	4.42	4.54	4.43
Shares of Australian dollars	1.77	1.80	1.70	1.70	1.69	1.62	1.67	1.70
Shares of Canadian dollars	2.00	2.03	1.86	1.90	1.95	1.84	1.92	1.92
Shares of Swiss francs	0.17	0.18	0.17	0.16	0.16	0.14	0.14	0.14
Shares of other currencies	2.33	2.44	2.47	2.42	2.54	2.48	2.44	2.44
Shares of Unallocated Reserves	14.73	12.60	10.46	8.41	6.16	6.19	6.10	6.06

Source: Currency Composition of Official Foreign Exchange Reserves (COFER), International Financial Statistics (IFS)

Data extracted from http://data.imf.org/ on: 11/14/2019 3:10:14 AM

Figure 4.1

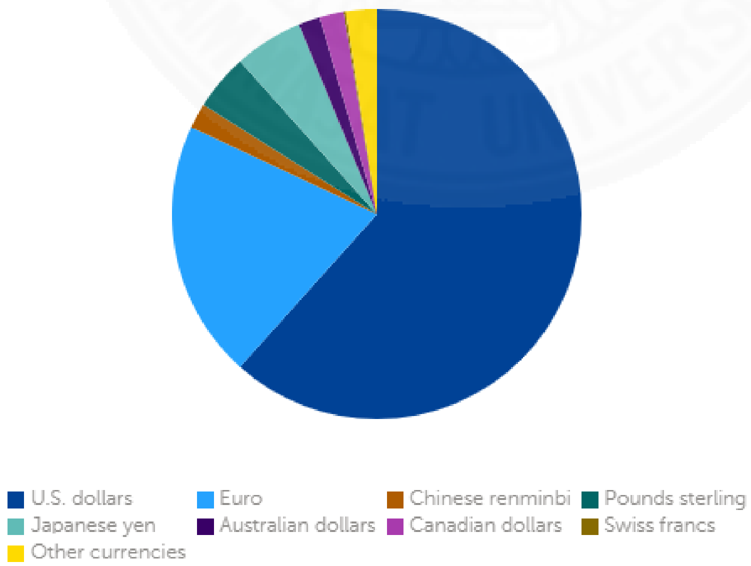
World - Official Foreign Exchange Reserves by Currency (US Dollars, Billions)



Note: Reprinted from "World – Official Foreign Exchange Reserves by Currency (US Dollars, Billions)." by International Monetary Fund, 2019. Copyright 2019, International Monetary Fund.

Figure 4.2

World – Allocated Reserves by Currency 2019Q2

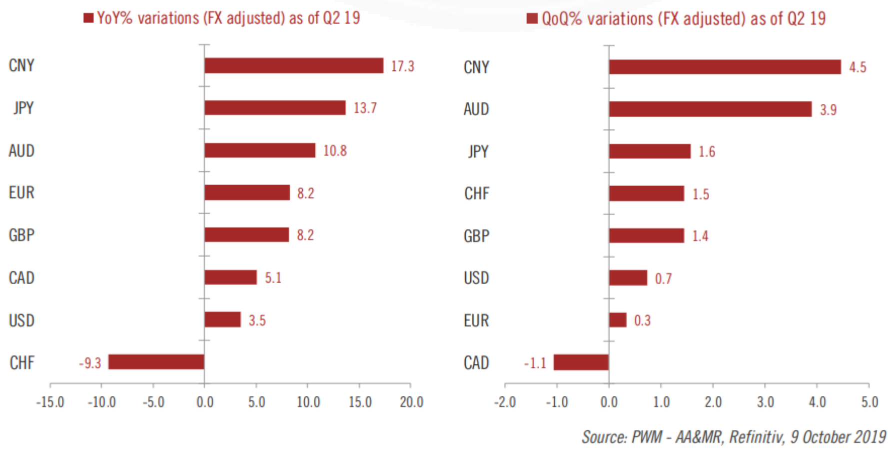


Note: Reprinted from "World – Allocated Reserves by Currency 2019Q2." by International Monetary Fund, 2019. Copyright 2019, International Monetary Fund.

The review of the International Monetary Fund's dataset on the Currency Composition of Official Foreign Exchange Reserves or COFER is aligned with the indication reviewed in the literature of the choice of currencies chosen by countries to store their central bank reserves with. If such indication reveals that there is a growing allocation of reserves stored in one currency, that entitles it to be elevating to its status as foreign exchange reserve asset – implying that there is significant trade linkages to support the balance of payments of certain countries using the renminbi as a currency for trade and investment. Reviewing the latest set of the COFER at 2019 Q2, the data implies that the US dollar still is the most popular among central banks to store its reserves in, apart from other assets such as gold. Looking in detail, central banks' allocation has largely increased its denomination of its reserves in the renminbi, possibly suggesting more buffers needed to cushion from collateral damages caused by the ongoing U.S.-China Trade War. The increase in the central banks' renminbi allocation of 17.3 percent (also at first place) shows that the trade dispute is one main indicator that countries select to hold more, opposite with the Swiss franc that lost 9.3 percent in total holdings globally by central banks' reserve managers as shown below in Figure 4.3.

Figure 4.3

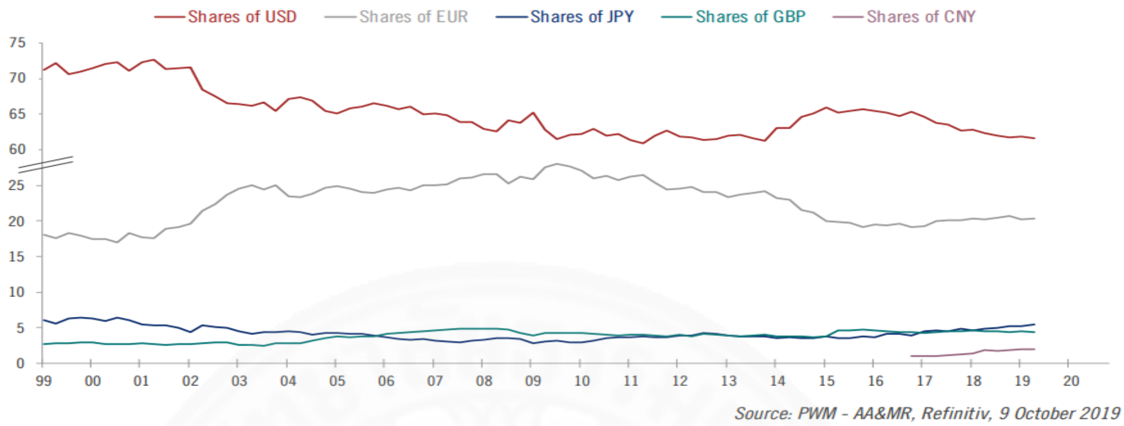
Changes in FX Reserves Claims



Note: Reprinted from "Central Bank Currency Allocations" by L. Luyet, 2019. Copyright 2019, Pictet Wealth Management.

Figure 4.4

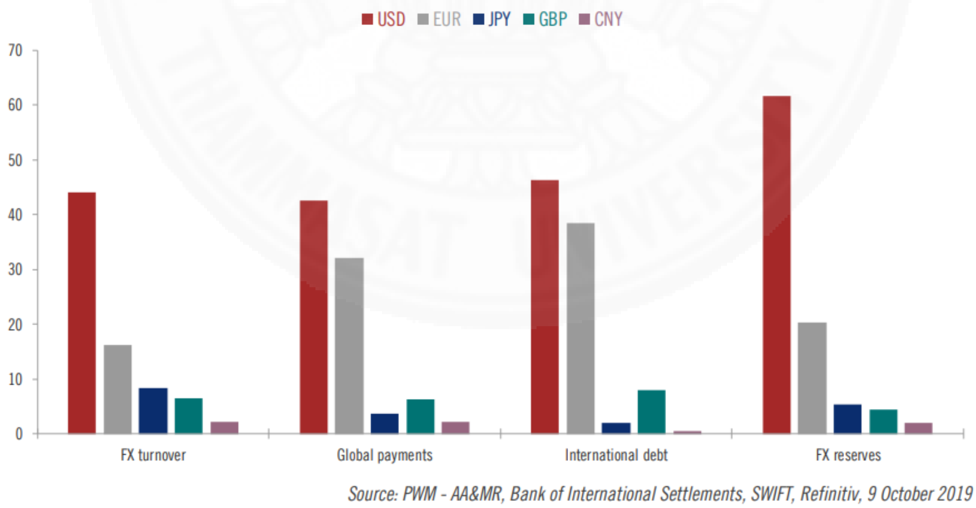
Central Banks' Allocated Reserves per Currency (%)



Note: Reprinted from "Central Bank Currency Allocations" by L. Luyet, 2019. Copyright 2019, Pictet Wealth Management.

Figure 4. 5

Currency Breakdown of Global Turnover, Payments, Debt and Reserves



Note: Reprinted from "Central Bank Currency Allocations" by L. Luyet, 2019. Copyright 2019, Pictet Wealth Management.

Building along the data findings with Figures 4.4 and 4.5 shown above, it comes into question whether the adoption of the renminbi by other authorities are given priority yet as along as China's internal financial stability on the domestic front is at utmost important. On the international front, given that there are trade disputes with the United States, the degree of liberalizing its capital account and removing capital controls are seen limited. The trade spat on many disagreements stalls negotiations between the two major global powers furthering accusing China, as well as other nations having high trade surpluses with the United States as a currency manipulator. In Figure 4.4, the share of US dollar is at paramount relative to the other shares of currencies, for the purpose of central banks' selection of reserve currency. Looking from a long-term perspective, it seems to be clear that the US dollar is in decline, and the Chinese renminbi is the second default major currency, given the relative lack of emergence of other regional currencies – the Euro and the Japanese yen. Additionally, the data finds that the low usage of the renminbi in terms of reserve currency implies that there are still the existence of high capital controls on China's capital account and for the Chinese economy that are obstacles to prevent a large usage of the currency. While the Chinese authorities have only begun to disclose its foreign exchange reserves allocation only in the second quarter of 2015, there are still existing distortions on the degree of accuracy of the currency – by which the act to provide full disclosure and information to the International Monetary Fund is an expectation under the Articles of Agreement.

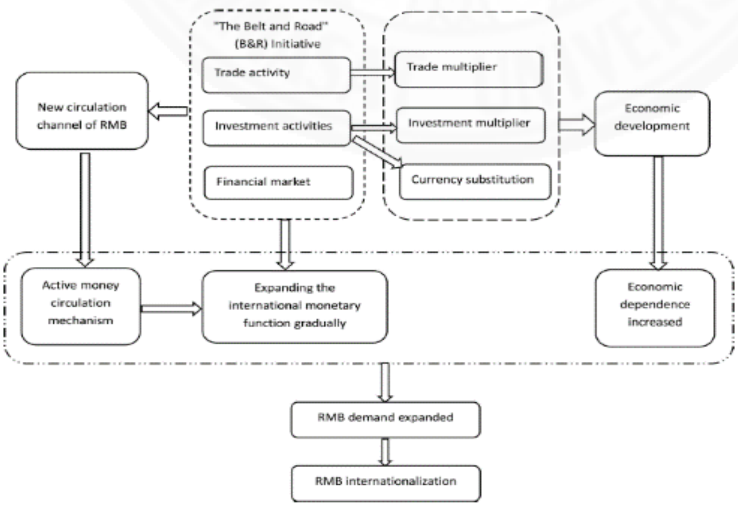
Continuing on the findings from Figure 4.4, the usage of the renminbi can be further explored on whether there are any suggestions that leads to a higher share of usage for central banks located in Asia and whether these central banks positively correlate with having high trade dependencies with China – notwithstanding the collateral benefit pertaining to the ongoing China-United States Trade War. The central banks in Asia are tentatively keeping an eye on whether there are any monetary attractiveness to denominating their reserves in Japanese yen – however, Figure 12 also suggests that most central banks would likely opt out of holding their central bank reserves in Japanese yen as the yen's appreciation will hurt the value of the reserve holdings in the medium to long-term equilibrium. Given there are still ongoing disputes on trade with the United States, the renminbi is still relatively confident/resilient in the long-run, as structural issues experienced by the Chinese authorities remain sustainable towards their growth plans following their official economic outlook. Thus, it may be too early to conclude based on just Figure 4.4 on whether China's rebalancing of its structural reforms domestically will put on a pause to currency internationalization initiatives, but at the very least, it is plausible to conclude that the continued trade conflict with the United States is one of the significant factors that reserves managers among all central banks in the world will have to keep an eye on and what implications it has for financial stability.

Figure 4.5 shows the breakdown of currencies in terms of global turnover, payments, debt, and reserves – accordingly to data from SWIFT. It is clear that the wider acceptance of the renminbi have resulted in a granular adoption of the currency more in the first set – foreign exchange turnover and global payments, rather than for international debt or for foreign exchange reserves. Following this train of thought, it would be recommended if further studies can be conducted, should data be available and complete, on which currencies are denominated in for international debt sidelining with the China's grand scheme geopolitical strategy – the Belt and Road Initiative, including concerns on whether the collateralization on the Initiative is a new form of debt-trap diplomacy.

4.2 Key factors analysis – deterministic factors for RMB internationalization

Figure 4.6

Factors influencing the RMB internationalization under the Belt and Road Initiative



Note: Reprinted from "Path selection of Renminbi (RMB) internationalization under "the Belt and Road" (B & R) initiative," by S. Xia, 2018. *American Journal of Industrial and Business Management, 8*(3), 667-685

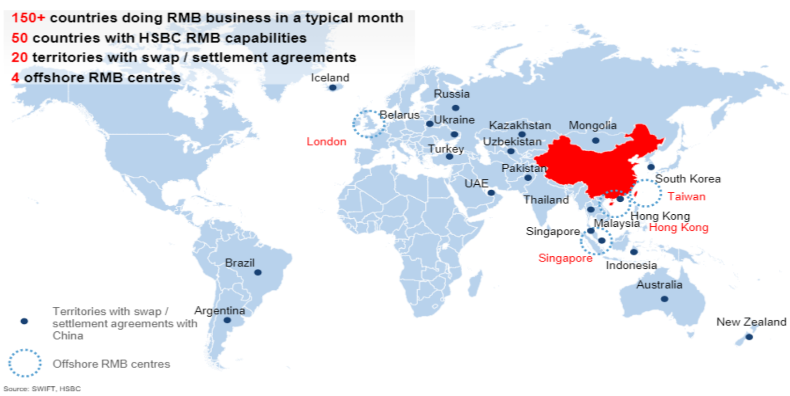
There are various identified factors that promote the renminbi's currency internationalization process. Generically, deterministic factors are those that involve the issuing country's total economic development, its real interest rate levels, and the minimal volatilities to the exchange rate (Xia, 2018). Another concluding factor is the degree of trade integration as means to promote the currency internationalization process. In one study using a VAR model to gauge on the positive causality of factors promoting the internationalization of the currency, it was found that slight appreciative pressures to the renminbi as well as offshore financial centers are key deterministic factors to promote the renminbi abroad (Xia, 2018). The framework shown here in Figure 4.6 visualizes influential factors that shows how the renminbi internationalization process goes cross-border into international circulation (Xia, 2018). From this figure, one main factor is having ample liquidity of currency available with stable exchange rates. The reason for this prerequisite is that the existence of international capital markets is a place to accumulate surpluses of this currency. Additionally, countries may urge to use similar set of international currencies in order to reduce switching costs or conversion costs, hence, the US dollar and the Euro can easily maintain its international status as the renminbi are still developing its offshore financial markets. As illustrated in Figure 13, the Belt and Road Initiative would cover over 60 countries from Asia to Europe, down to the Middle East, and through Africa. These two track/routes along the "Belt" and the "Road" navigates to enhance greater trade linkages and interconnectivity across nations – possibly promoting the renminbi internationalization or regionalization among involved countries. Although the renminbi is not freely circulated yet, with capital controls still imposed, greater cooperation from institutional, market, and individual initiatives/projects will actively create new circulation channel of the renminbi, which in turns create new active money for circulation and thus expand the international monetary function in a granular manner (Xia, 2018). The Belt and Road Initiative is also beneficial to the promotion of the renminbi internationalization in two folds. First, it serves as the multipliers for trade and investment. Second, its investment activities in renminbi yields as a substitutable currency choice through greater investment activities. As a result, more economic development will increase and that the dependency towards China's economy as the main importer of goods in Asia will coincide with the expansion of the renminbi's internationalization.

Furthermore, from an institutional perspective, China wouldn't wait for the western-dominated international financial institutions to adapt to the renminbi internationalization promotion but rather leverage from their own Chinese-led international financial institutions and development agencies to be conducive to denominating their capital spending and investment in renminbi. As institutions such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) become more crucial, they serve as a "dual drive" to trade and investment and a platform where the Chinese authorities can expand the user of the renminbi and its internationalization (Xia, 2018).

Building upon this notion that currency internationalization goes in parallel with trade integration, one of the main findings to connect with is where the renminbi is currency widely circulated. In this regard, the renminbi appears to be having high correlation with its geographical location and would support the notion that it is currently being regionalized based on the complementary relationship through trade agreements, border trade, to high trade dependency (such as North Korea). At present, there following countries (or cities) are markets where the renminbi is a key currency, not in any particular order besides chronological: Hong Kong, Lao P.D.R. North Korea, Pakistan, Russia, South Korea, Taiwan, and Vietnam (Xia, 2018).

Figure 4.7

Expansion of the RMB Outside of China



Note: Reprinted from "*Overview of RMB Internationalization*," by C. Ho, 2013. Retrieved from https://docplayer.net/5629131-Overview-of-rmb-internationalisation.html

Figure 4.7 visualized by HSBC back in 2013 shows the extent of countries that are involved in conducting trade settlement in renminbi. Since then, more than 150 countries have participated in using the renminbi, with 50 of those appointing HSBC to conduct trade settlement services in renminbi. It can be noticed that these countries are mainly those that also participate in the Belt and Road Initiative. As of 2013, around 20 countries have signed BSAs between central banks to provide backstop liquidity. Lastly, by 2013, there were four offshore renminbi financial centers, being London, Singapore, Hong Kong, and Taiwan.

Figure 4.8

Belt and Road Initiative Map

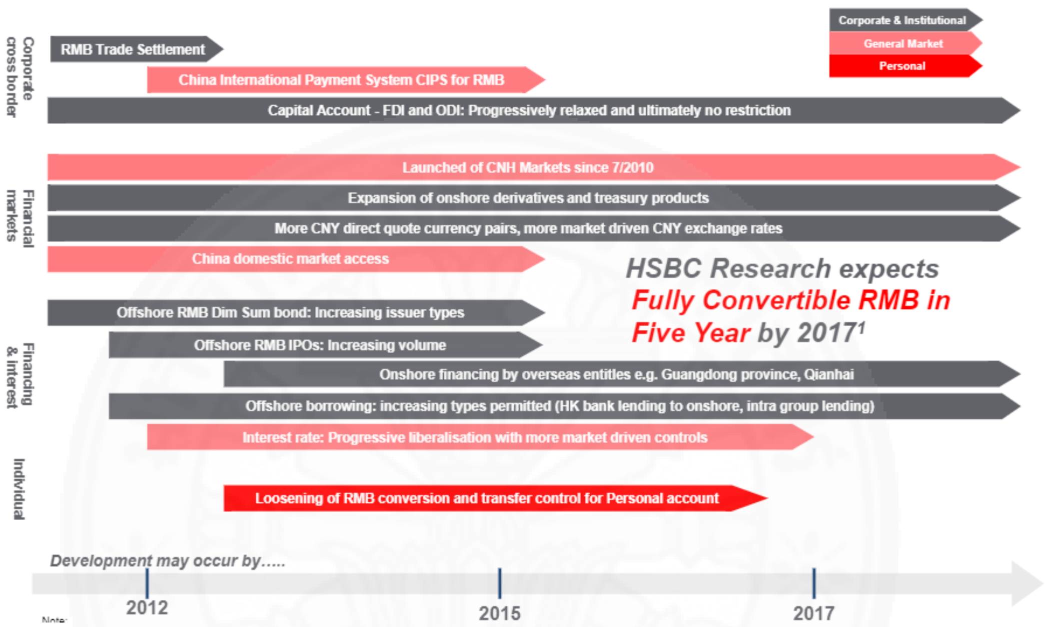
Note: Reprinted from Map of Belt and Road Initiative" by S. Romania, 2020. Copyright 2020, China-Lusophone Brief.

By the map of the BRI below, it is noticeable that the route goes along the four main parts of the land mass – from Asia to Europe, down to Africa and through the Middle East back to Asia's Indo Pacific Region. Evident to this is the exclusion of the United States into the trade infrastructure investment. Similarly done before, and serves as a reminder in hindsight is how the United States and the European Union have attempted to use the Transatlantic Trade and Investment Partnership (TTIP), Trans-Pacific Partnership (TPP), and Trade in Services Agreement (TISA) Free Trade

Agreements (FTAs) to undermine the other World Trade Organization (WTO) member states.

Figure 4.9

Reforms Paved for the RMB



Note: Reprinted from "*Overview of RMB Internationalization*," by C. Ho, 2013. Retrieved from https://docplayer.net/5629131-Overview-of-rmb-internationalisation.html

As shown in Figure 4.9, and to support the main point that the renminbi internationalization is a long-term process, take for example a roadmap simplified by HSBC in 2013. The study finds that PBOC authorities are working on monetary initiatives that focuses on the trade activities and investment activities separated into four main categories – corporate cross border, financial markets, financing and interest, and individual. It becomes evident that these initiatives for all types of renminbi users adhere to emerging economy policymakers since the rationale for these policies are to reduce systematic allocation of risks and also the buildup of the FX reserves – a key following of Economic Realism. In other terms, China's role as an international leader is symbolic in global politics because with full control of its capital account, rules and regulations are tightly control under the socialist regime, existence of biased application of rules to promote global influence shift or reform prevails as a challenge to the US dollar, Euro, and the Japanese yen.

Table 4.3

China's Trade with Trading Partners

Value (USD bn)	2003			2008			2013		
	Import	Export	Total	Import	Export	Total	Import	Export	Total
Asia	272.9	222.6	495.5	702.6	664.1	1,366.7	1,089.9	1,134.1	2,224.0
– ASEAN	47.4	30.9	78.3	117.0	114.1	231.1	199.4	244.1	443.5
Latin America	14.9	11.9	26.8	71.6	71.8	143.4	127.4	134.0	261.4
Africa	8.4	10.2	18.5	56.0	51.2	107.2	117.5	92.8	210.3
Europe	69.7	88.2	157.9	168.1	343.4	511.5	324.2	405.7	729.9
North America	38.3	98.1	136.4	94.1	274.3	368.3	177.7	397.8	575.5
Oceania	8.6	7.3	15.9	40.2	25.9	66.1	108.7	44.6	153.3
Total	412.7	438.2	851.0	1,132.6	1,430.7	2,563.3	1,945.3	2,209.0	4,154.3

CAGR (%)	2003–2013			2003–2008			2008–2013		
	Import	Export	Total	Import	Export	Total	Import	Export	Total
Asia	14.9	17.7	16.2	20.8	24.4	22.5	9.2	11.3	10.2
– ASEAN	15.5	23.0	18.9	19.8	29.9	24.2	11.3	16.4	13.9
Latin America	23.9	27.4	25.6	36.8	43.3	39.9	12.2	13.3	12.8
Africa	30.2	24.7	27.5	46.3	38.2	42.0	16.0	12.6	14.4
Europe	16.6	16.5	16.5	19.2	31.3	26.5	14.0	3.4	7.4
North America	16.6	15.0	15.5	19.7	22.8	22.0	13.6	7.7	9.3
Oceania	28.9	19.9	25.4	36.2	28.8	33.0	22.0	11.5	18.3
Total	16.8	17.6	17.2	22.4	26.7	24.7	11.4	9.1	10.1

Data Sources: CEIC and FGI calculations

Note: Reprinted from *Renminbi Rising: A New Global Monetary System Emerges*, by W.H. Overholt, G. Ma & C. K. Law, 2015. Copyright 2016 Fung Global Instituted Limited.

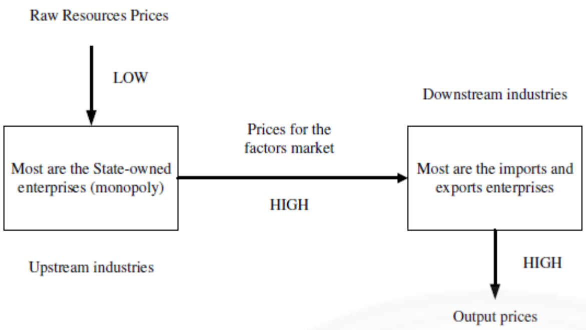
4.3 Research comparison, critique, and limitations

Comparing with other research conducted similarly, previous theories, such as the “Hegemonic Stability Theory” by Charles Kindleberger suggested that only the successful nation-state leader can unilaterally construct the rules of the global economy, and that it will in turn, stabilize and manage the world’s affairs. This theory only objects to the notion of unipolarity and not multipolarity. In the process of internationalizing the renminbi in places along the Belt and Road Initiative, it would conflict with Japan’s vested interests in Asia with its currency – thus there is a need to cooperate on Asian currencies in Asia. Institutionally, many studies have concluded that there is an important leverage to be made using the influences of Chinese-led IFIs so that the renminbi can be used as a settlement currency for trading partners. On the contrary, studies have concluded that the likelihood of the SDR becoming a main reserve currency held by central banks would ultimately be at very low possibly – especially when China is not motived about the promotion of the renminbi through the SDR. Theoretically, it validates that Liberal Institutionalism applies for those that cooperation between the US and the European Union, and that China have voiced its discontent by showing in response how it would like to be the pioneer of a “rules-based multilateral system”.

Similarly, one recommendation raised by a study claimed to refer Chinese current policies as unsustainable, and being caught into a trapped dilemma of whether to appreciate or depreciate the Chinese renminbi. (Wang, Zhou, & Wang, 2012) In spite of this, the study concluded that the distortion of the raw material prices given exclusively to Chinese state enterprises caused prices to be artificially low and distorted, thereby weakening the state of the Chinese economy whenever confronted with the greater degree of capital account liberalization and international pressure to deregulate capital controls. From another point of view, a few contribution that this paper can offer is to consider the degree of correlation and sensitivity that these distortive pricing in raw materials are effecting the Chinese's monetary policy autonomy since industries of electricity and coal, for instance, are influential to the Chinese balance of payments. Moreover, it would be inclusive to consider the granularity of the size of these Chinese state enterprises, as they are important from a political viewpoint, but certainly profitable from a financial standpoint. A recommendation to carefully monitor, prioritize, and scrutinize optimal resource allocation to these enterprises will be crucial to track flows of capital and outward investment in renminbi as shown below in Figure 4.10.

Figure 4.10

Structure of Chinese State Enterprises



Note: Reprinted from *The change of the value of the RMB and it influences on China* (MPRA paper 43733) by D. Wang, A. Zhou & D. Wang, 2012.

There were a few limitations to this study. A main one was the language barrier to materials containing very niche opinions on the renminbi internationalization and the international monetary system. By being unanswered on the original views of another language, one may be misinterpreted over translation and have to confront assumptions that we may not fully understand. Another point being related to the language barrier is also the amount of classified documents, especially on the collateralization or the terms of agreement on loans disbursed by Chinese-led IFIs and the Belt and Road Initiative. As a suggestion, the research may utilize primary data by conducting interviews with those with first-hand knowledge to overcome this data limitation and that surveys can also be conducted to gauge on perceptions attained from third parties from these Chinese initiatives. Attributing to this deficiency, there may be other types of bias that are found in studies written from the Western schools of thought, and would also exclude or prevent access to official data.

CHAPTER 5
CONCLUSIONS AND RECOMMENDATIONS

The Chinese proverb, *"cross the river by feeling the stones"* offers deep implications how the renminbi internationalization is a long-term geopolitical strategy, along with the pursuance of the Belt and Road Initiative, the set-up Chinese-led international financial institutions. All grand schemes work in complementary to each other and that exemplifies the pace of positive effects to speeding up deterministic factors that promote the renminbi's internationalization (such as the set-up of domestic and international financial markets or structural reforms).

Just as the importance of stability is to the international financial system, global currencies are also important when global statuses are dynamic – brought by endless challenges. Without a clear hegemonic power in monetary dominance, the lack of this power will result it ambiguity or greater multipolarity of currencies – with notion to the Hegemonic Stability Theory. As China climbs up to the world stage, there are policy implications of the degrees of internationalization of the current international financial system and the Chinese renminbi's role as the main trade and investment currency. Drawing upon the US dollar case in history, without the quotation of the dollar with oil exports, the military alliance with Saudi Arabia, and the resulting "Petrodollar Mercantilism", the dollar may not have never made it this far. Thus, one implication for the Chinese authorities is to focus on how to quote commodities into their currencies so that the Petroyuan or the renminbi used in other commodities can be "recycled" back into China. For the United States, the recycling aspects are those that are reinvested back in US Treasury bonds, a main financier-aspect that allowed the US to conduct its foreign policy effectively till today. Moving on to the next implication for China is the need to climb up the development progress to act as Asia's main importer. As the second largest economy in the world, its structure is also main the factory of the world. By shifting its production base into other ASEAN countries, and inclining to a consumption-led growth, this will propel China to enhance trade negotiations just like the United States.

In sum, the Belt and Road Initiative presents new opportunities with the renminbi internationalization or regionalization to expand on the settlement of trade and investment activities, with involved countries. The Chinese economy has its history on economic development that leverages from the Chinese-led initiatives. At present, there must be an effective leverage from the global payments network and the freer flow of capital across borders that would assist the internationalization of the renminbi become more effective and opportunistic. Financial liberalization in today's world does influence the way the world political and economic order function – and whether the Bretton Woods Institutions – the IMF and the World Bank would prolong its influence across the 21^{st} century.

One key take-away is that the internationalization process is still an ongoing Chinese trial-and-error, experimenting on the case studies of other currencies. In this light, the study have identified key deterministic factors that help promote a catalytic and inertia-like response towards currency internationalization – namely financial liberalization, the liberalization of the capital account, the need for a stable and balanced economy, the requirement for a domestic structural balance being prioritized first, the right sequencing of domestic reforms, and the extent of making considerable depth of understanding to the current international currency standing. One contribution to this study is to note that there may not be the internationalization prospect in the near-term nor the medium-term and such gains from being internationalized only comes from being regionalized first. As regionalization is planned along geographical terrains of the Belt and Road Initiative, the study proposes a new term to cover Asia, Middle East, Europe, and Africa as "Renminbi Continentalization".

Using the case studies of the US dollar, the Euro, and the Japanese yen, some lessons can be drawn in terms of geopolitical policies and initiatives of currency internationalization. First, there would be greater adoption of the currency being internationalized if it is linked/tied to a commodity widely used globally. In this case, the dollar was tied to the oil exports which was credited to the US's military alliance and foreign policy since President Roosevelt in the mid-1940s. Second, the yen was undermined by market forces which ruined the authorities' efforts to internationalize the yen as it lost its exchange rate stability. Part of this is because there was a favor biased to the credit allocation for Japanese multinational corporations (MNCs) to support these industries mainly for their expansion in the Southeast Asian region. The key take-away here is exchange rate stability and slight appreciation is at utmost important to currency internationalization. Third, both China and Japan displayed the difficulties in pushing for currency dominance as the lack of trust and cooperation hinders currency initiatives. Without the institutional infrastructure of the region's own, efforts would still rely on consensus making – proving highly difficult to reach into conclusion in areas such as surveillance. Fourth, countries are still under export-led growth development strategies, which requires the national currency to be relatively competitive, hence, countries are not ready to give up monetary autonomy. Therefore, East Asian regionalism's lack of trust, cooperation, an institution of their own would prove serious difficulties in affecting the global financial architecture and governance.

Current international financial institutions do play a role to support the internationalization initiatives. They way these IFIs support is how institutional support is key to ensure a market-based approach of currency adoption. For instance, the PBOC have signed BSAs with other central banks not only to promote the renminbi offshore but also to serve as emergency lending facilities. Additionally, another way that IFIs promote the renminbi is through having appointments or designated Chinese clearing banks to conduct these operations offshore – this is known as the Renminbi Qualified Foreign Institutional Investor (RQFII). Lastly, state-owned banks (or China's two main policy banks – the China Development Bank and the China Exim Bank) also play a role to facilitate its loans in foreign currency (in RMB) in order to expand overseas prudently following government policies. Thus, the offshore RMB clearing centers and international financial markets are part of the China's vision and determination to internationalize its currency with Chinese characteristics given the increasing market demand for transactions on trade and investment to be settled in RMB.

From a policy perspective, although Japan had pursued the internationalization of the yen from the 1980s to the 2000s and China from 2005 to present, there may be a direction that central banks would choose to promote the usage of local currencies for international trade and settlement – a move to support greater basket of currencies in Asia. Countries should stimulate sustainable economic growth through prudent measures of foreign exchange management and best practices to buffer against external shocks and vulnerabilities amidst greater trade conflict and tensions.

Concurrently, monetary cooperation that fosters regional trade and greater independence can assist Asian countries and its trading partners to factor in greater stability with the Western-led IFIs. Significant rules, shared norms, and values can be molded together to shift away from the traditional consensus-based decision making as happening today. Furthermore, countries can monitor together using structured and co-developed surveillance indicators to track the renminbi internationalization progress and make step-by-step gradual improvements to support self-assurance in this ever-developing financial architecture in Asia.

As this study have presented an outlook and some paths of renminbi internationalization, there are many recommendations stemming from this research as to conduct further studies in various angles, including whether which currencies are most popular in being quoted for international debt. For future studies, an extension in a form of question can ask, why are institutional hurdles impairing the currency internationalization efforts and were they in any part of significant factors of the set-up of Chinese-led institutions (such as the Asian Infrastructure Investment Bank and the New Development Bank). Furthermore, with the US dollar and the Euro being the most two circulated currencies in the world, it is a bleak outlook for the renminbi to globally internationalize. However, since the US dollar's dominance comes from the alliance with oil-exporting countries, the threat to the petrodollar would be significant once the world turns to alternative and renewable energy.

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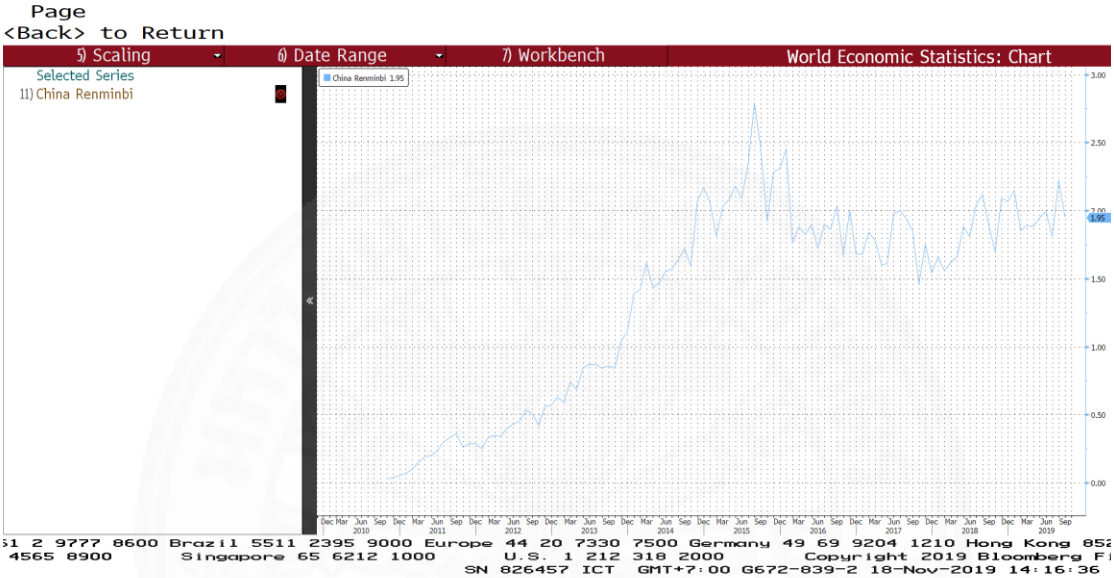
APPENDICES

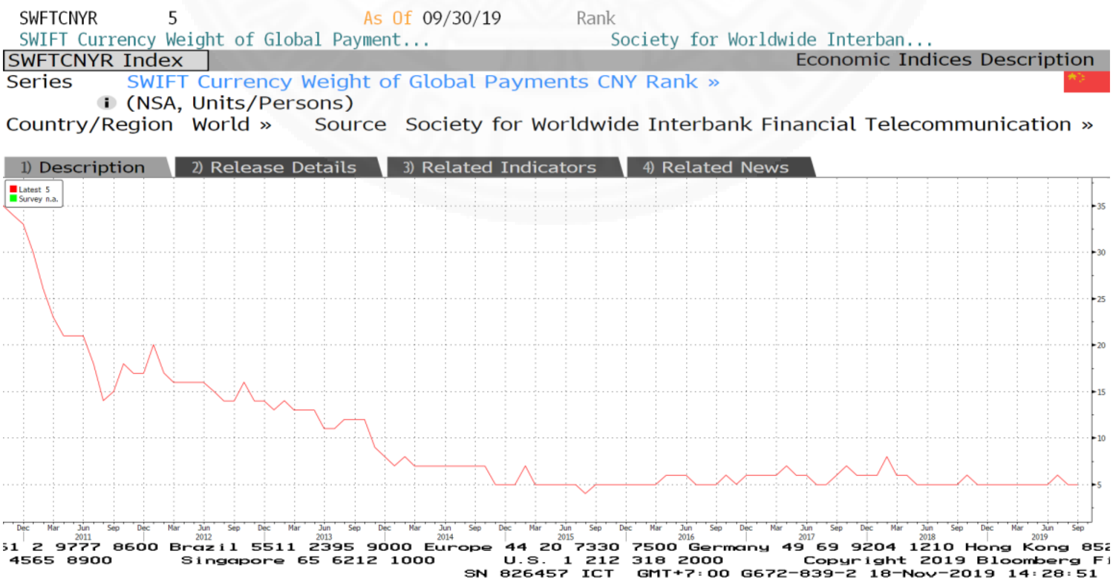
APPENDIX A

RMB CROSS-BORDER PAYMENTS - BLOOMBERG TERMINAL

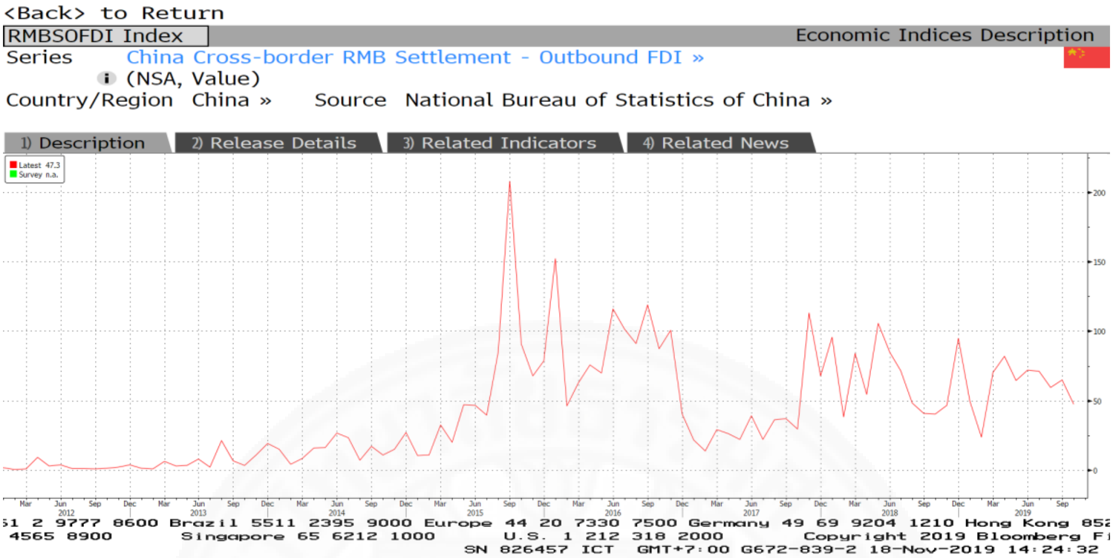
RMB as a percent of world payment currencies:



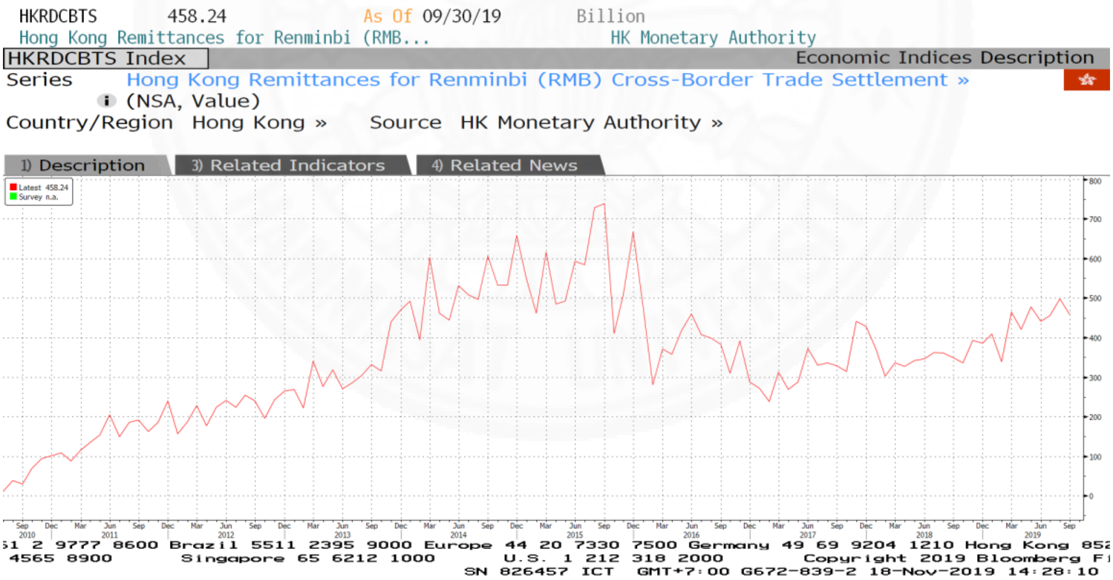
RMB payment currency ranking:



China cross-border RMB settlement – outbound FDI:



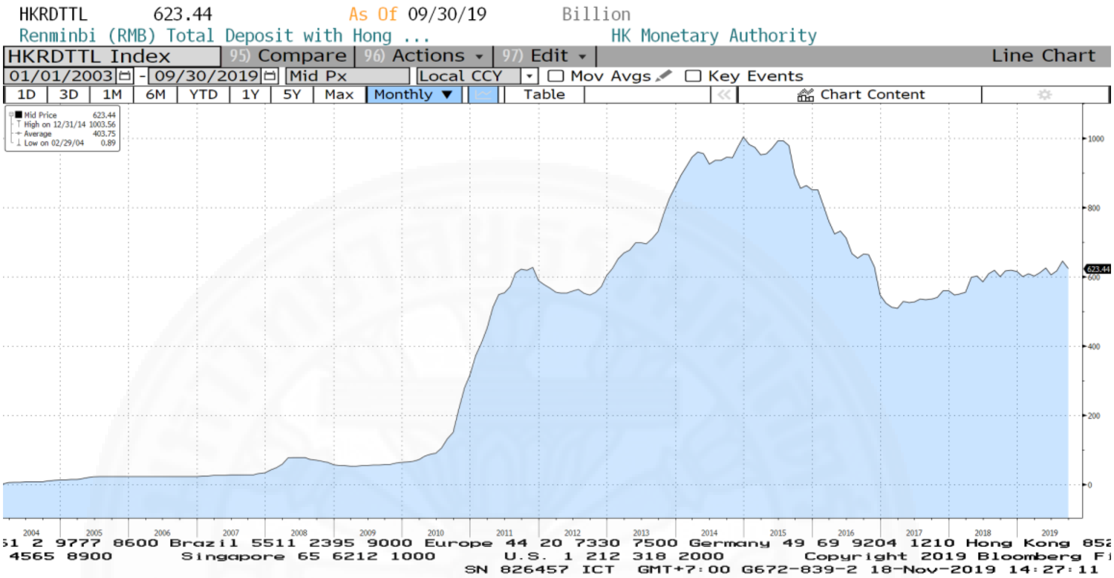
Hong Kong remittances for RMB cross-border trade settlement:



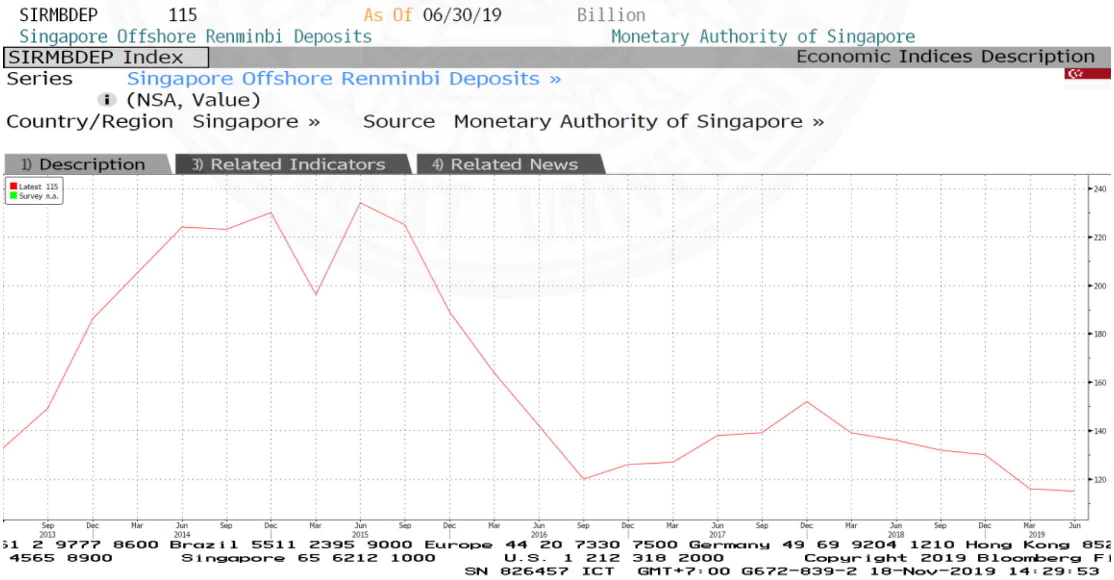
APPENDIX B

OFFSHORE RMB LIQUIDITY – BLOOMBERG TERMINAL

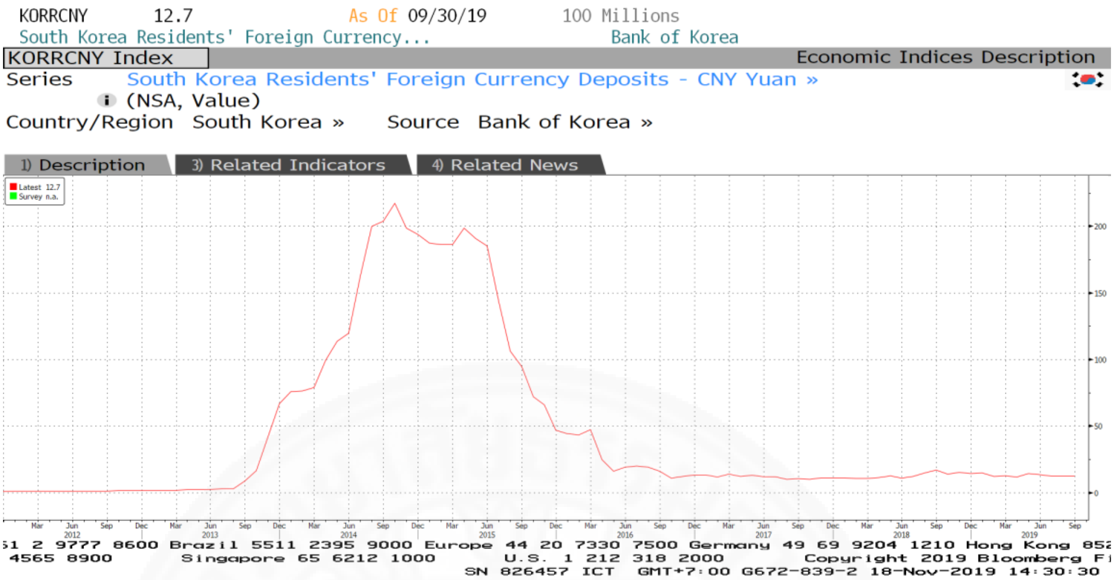
CNH deposits in Hong Kong:



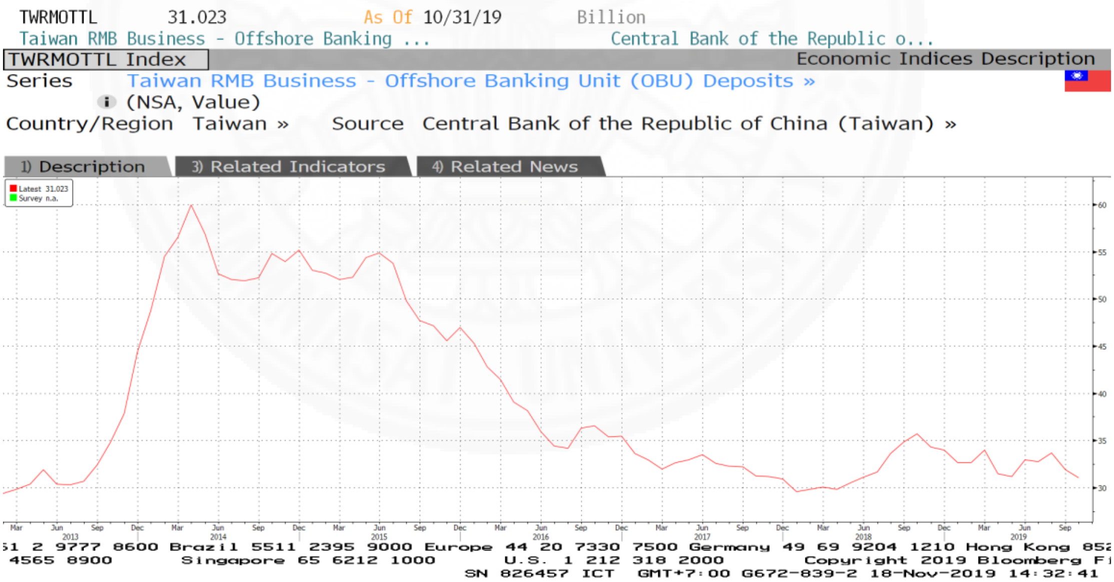
CNH deposits in Singapore:

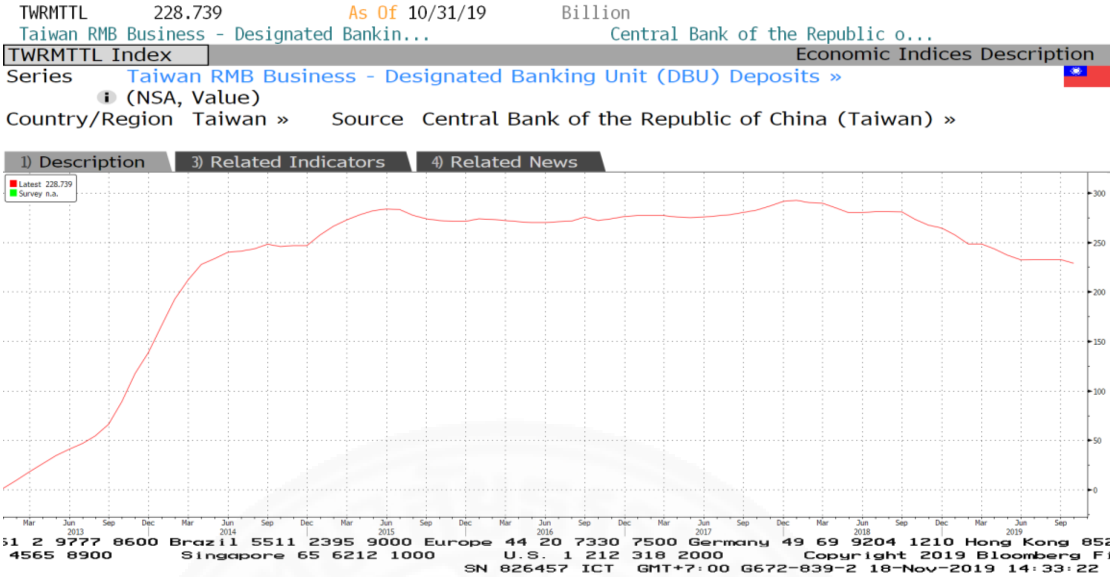


CNH deposits in South Korea:

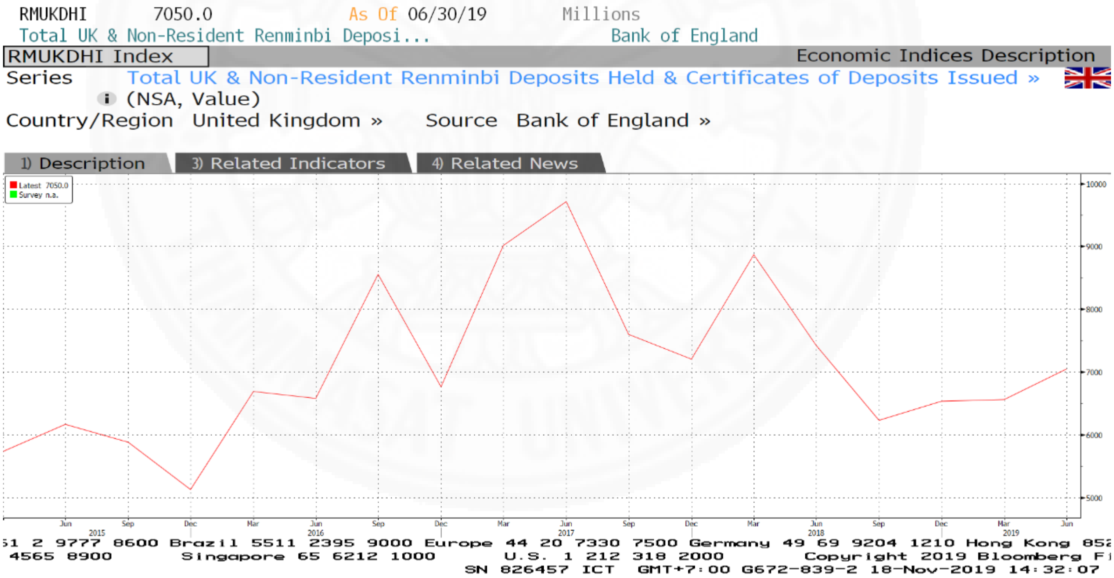


CNH deposits in Taiwan:

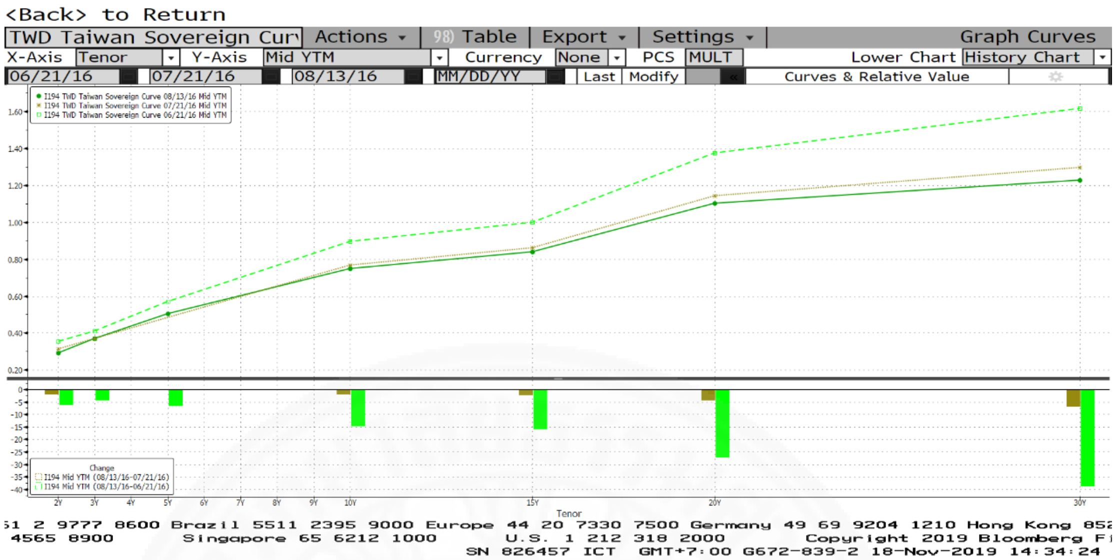




CNH deposits in the United Kingdom:



CNH deposit rates curve:



APPENDIX C

RMB FUNDING – BLOOMBERG TERMINAL

CNH 3-year cross currency swap:

CGUSSW3 2.64000 -.08000 BGNT 2.59451 / 2.68549 BGNT
At 14:22 Op 2.66000 Hi 2.66007 Lo 2.63969 Close 2.72000

CGUSSW3 BGNT Curncy Security Description: Swap

1) Properties 2) Related Instruments 3) Related Curves

CNH-USD Offshore Quarterly (vs 3M LIBOR) 3Y FIGI BBG009HYKXJ2

A vanilla interest rate swap is an agreement between two counterparties to exchange cashflows (fixed vs floating) in the same currency. This agreement is often used by counterparties to change their fixed cashflows to floating or vice versa. The payments are made during the life of the swap in the frequency that is pre-established by the counterparties.

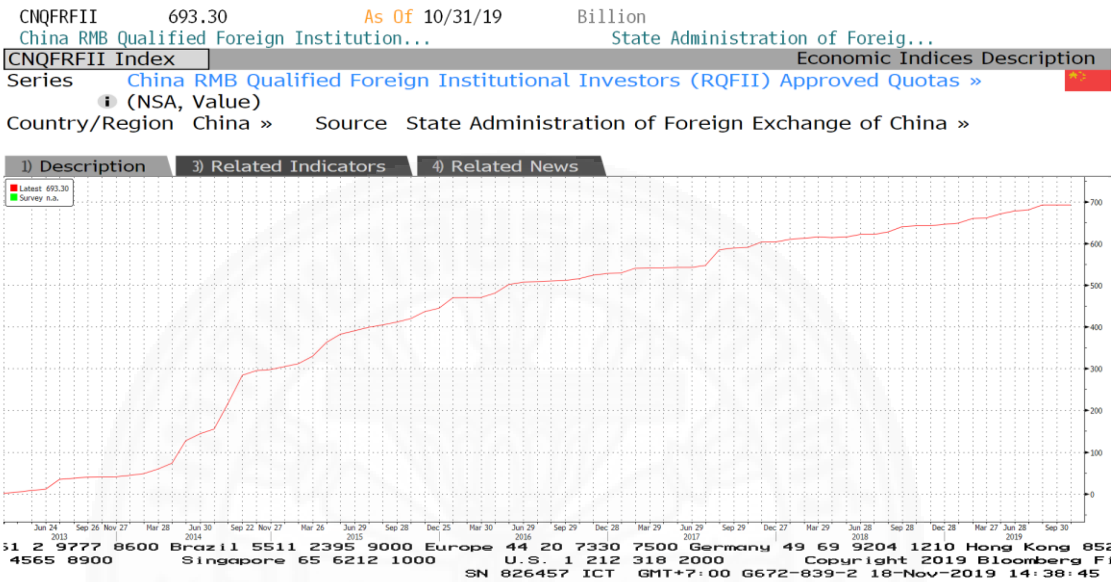
Overview			Fixed Leg		Float Leg	
Currency	CNH		Day Count	ACT/360	Day Count	ACT/360
Currency2	USD		Pay Freq	Quarterly	Pay Freq	Quarterly
Settlement	T+2 Days	Nov 20 2019	Bus Adj	Mod Following	Index	US0003M Index
Term	3 Year	Nov 20 2022	Adjust	Accrl and Pay Dates	Reset Freq	Quarterly
Discounting	(L)ibor		Roll Conv	Backward (EOM)	Bus Adj	Mod Following
Shore	Off Shore		Calc Cal	CH HK FD EN	Adjust	Accrl and Pay Dates
MTM			Pay Delay	0 Bus Days	Roll Conv	Backward (EOM)
			Coupon	2.64000	Calc Cal	CH HK FD EN

4) Price Chart | GP »

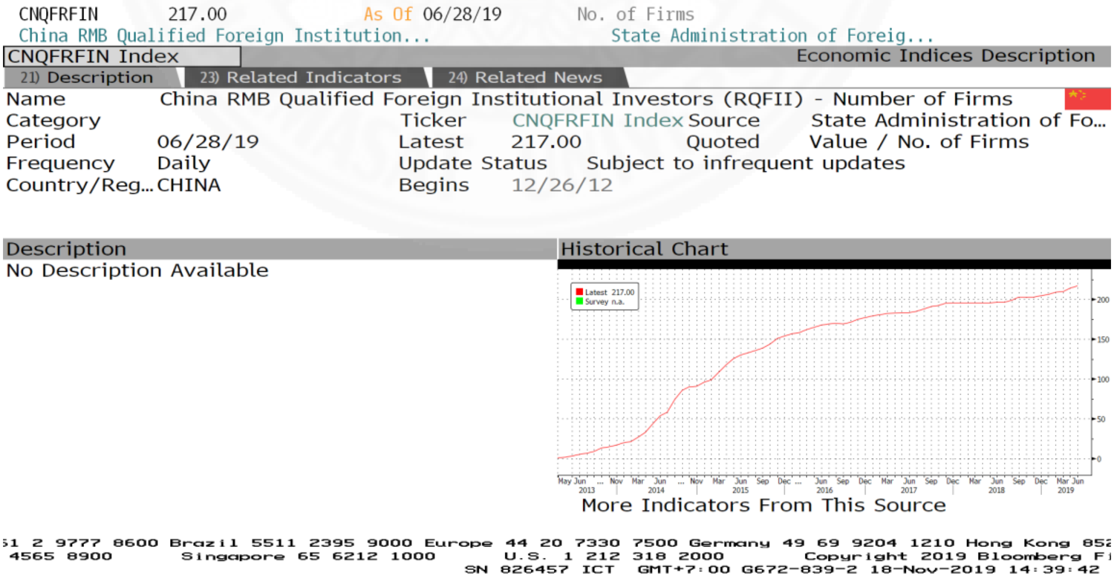
APPENDIX D

CHINA'S CAPITAL MARKETS – BLOOMBERG TERMINAL

RQFII approved quotas:



RQFII number of firms:

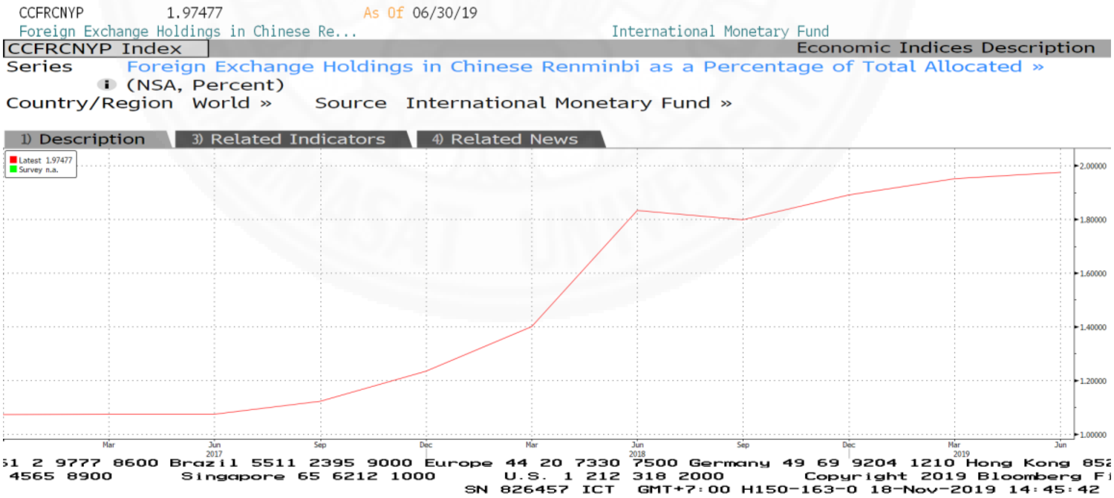


APPENDIX E

CENTRAL BANK SUPPORT – BLOOMBERG TERMINAL

China bilateral currency swap arrangements:

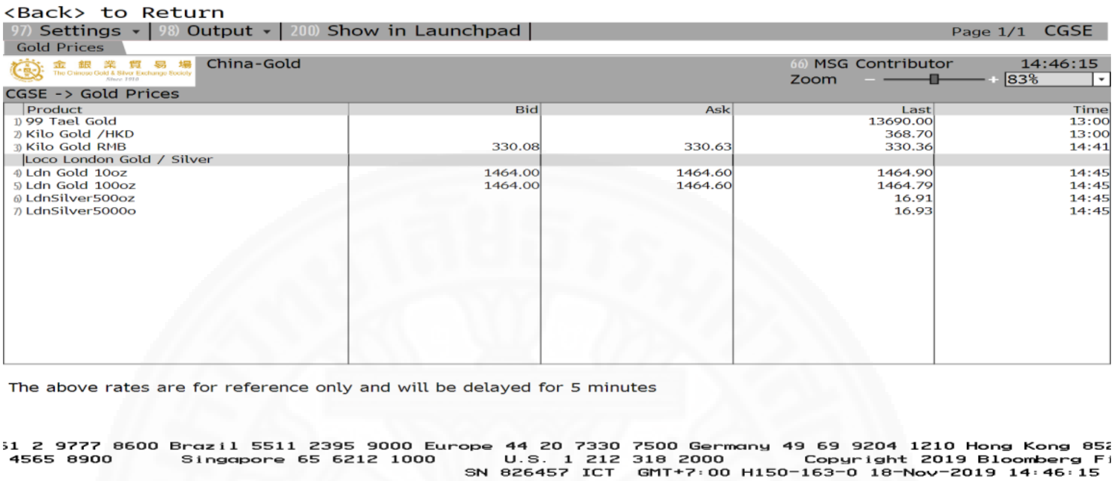
Foreign exchange holdings in Chinese renminbi as a percentage of total allocated:



APPENDIX F

CNH COMMODITIES – BLOOMBERG TERMINAL

CNH gold contract:

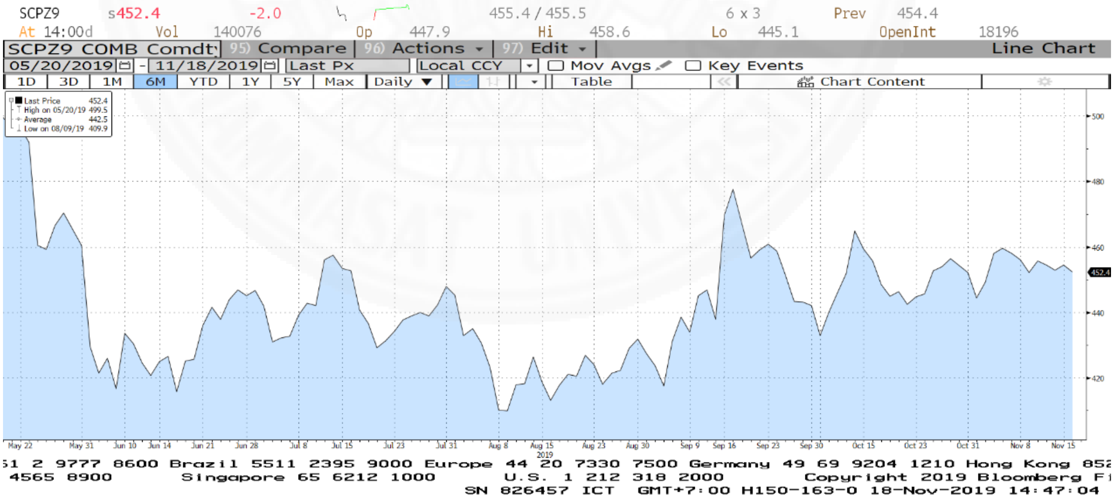

<Back> to Return
97) Settings 98) Output 200) Show in Launchpad Page 1/1 CGSE
Gold Prices
China-Gold 66) MSG Contributor 14:46:15
Zoom 83%
CGSE -> Gold Prices

Product	Bid	Ask	Last	Time
1) 99 Tael Gold			13690.00	13:00
2) Kilo Gold /HKD			368.70	13:00
3) Kilo Gold RMB	330.08	330.63	330.36	14:41
Loco London Gold / Silver				
4) Ldn Gold 10oz	1464.00	1464.60	1464.90	14:45
5) Ldn Gold 100oz	1464.00	1464.60	1464.79	14:45
6) LdnSilver500oz			16.91	14:45
7) LdnSilver5000o			16.93	14:45

The above rates are for reference only and will be delayed for 5 minutes

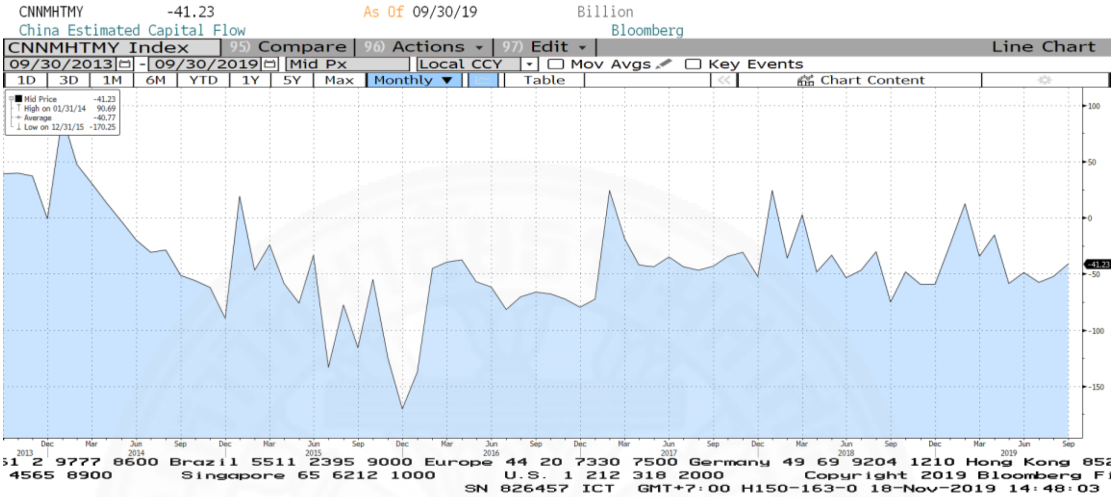
61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852
4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2019 Bloomberg F
SN 826457 ICT GMT+7:00 H150-163-0 18-Nov-2019 14:46:15

RMB oil futures:

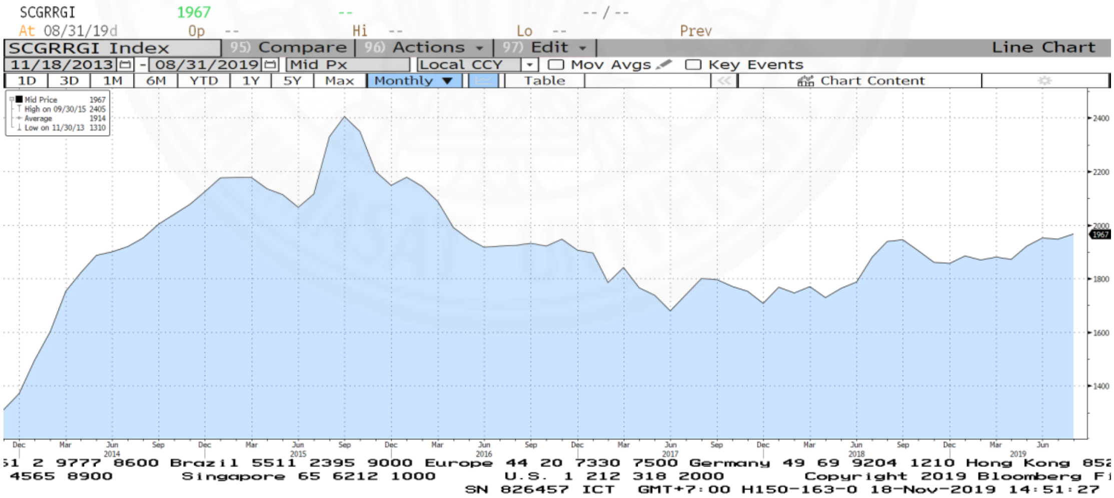


APPENDIX G
RMB INDICES – BLOOMBERG TERMINAL

China estimated capital flows:



Renminbi Globalisation Index (RGI):



BIOGRAPHY

Name	Mr. Waratch Thananant
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