The Internationalization of Emerging Economy Currencies: An Alternative to Protectionism?[1]

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Abstract: The developments after the crisis of 2008-2009 highlighted the vulnerabilities of the International Monetary System. In this context, some countries considered reducing their dependence on the US dollar and increasing the role of their currency internationally. This paper examines whether the internationalization of emerging countries' currencies has been an alternative to protectionism. To this end, we took into account the relevance of the currencies of emerging economies internationally and the internationalization of the renminbi. As far as the internationalization of the Chinese currency is concerned, we presented the political and economic motivations, the main paths, and the main evolutions.

Keywords: currency internationalization, protectionism, emerging countries, renminbi (RMB), China, offshore market, RQFII

JEL Classification: F33, F65, G15

1. Introduction

The International Monetary System (IMS), in its current configuration, is dominated by the US dollar[2]. Since the signing of the Bretton Woods agreement in 1944, the currency issued by the world's largest economic power, the United States (US), is the one that has fulfilled the function of money at the international level. Because it was perceived mainly as a safe deposit and an intermediary good for transactions between other less internationalized currencies, it was widely accepted as the main reserve currency held by the countries of the world. In addition to the US dollar (USD), other currencies such as the euro, the pound sterling, the Japanese yen, etc. have had similar developments over time, with different levels of internationalization.

The financial crisis of 2008-2009 revealed several vulnerabilities resulting from this international monetary unipolarity, raising concerns and calling into question the reform of the IMS. Among the arguments put forward by the proponents of such a reform was the fact that it is not in line with the trends of the global economy structure (a multipolar one), making the entire financial and monetary system vulnerable to the shocks and monetary policy changes in the US (and other issuers of reserve currency), and it does not provide a uniform risk-sharing between world economies (Maziad et al., 2011). In addition to these, as shown more recently in the context of the current Covid-19 pandemic, there is the issue of the long-term sustainability of the US dollar, in the context of its sharp depreciation in recent years, of the increased public debt of the US and of a savings rate that is increasingly smaller (International Banker, 2020).

One of the issues considered in the context of these discussions was the replacement of the current international monetary system with a system based on multiple currencies. In 2009, for example, China proposed, through the governor of its central bank, Zhou Xiaochuan, a solution to replace the dollar in the IMS with a synthetic reserve currency (SDR-type) that would not be affected by monetary policy measures of individual nations which could affect the stability of others, worldwide (Financial Times, 2009).

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[2] We are referring to the period since the signing of the Bretton Woods agreement.

In this context, several emerging economies have considered the internationalization of their own currencies as a solution to the strong influence of the US dollar and, from this point of view, as an *alternative to protectionist measures*. This is supported by the increasingly important role that emerging countries are beginning to play in the world economy and, coupled with the interest of investors (Ma, 2014).

Moreover, such a strategy would bring a number of benefits to these economies. It would lead to lower trading costs for countries whose currencies are internationalized, reduce the exchange rate risk for economic operators and provide more advantageous lending conditions for issuing countries on the international market. In addition, from a global perspective, the existence of more currencies competing with the US dollar and the euro internationally would lead to better risk-sharing, reduce the potential for crises, facilitate gradual adjustments in economies and stimulate sustainable policies ensuring stability in the financial and monetary system (Gao, 2011).

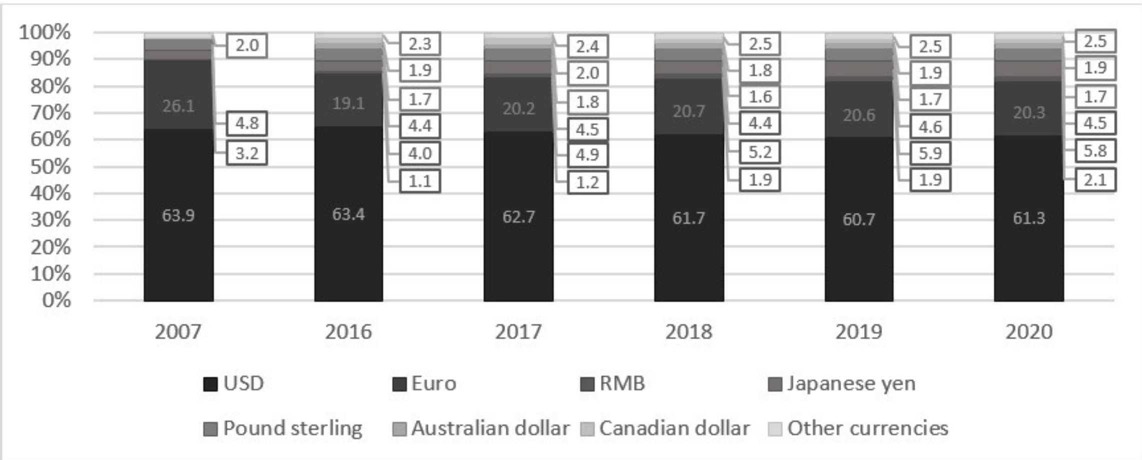
2. The internationalization of emerging economy currencies

The importance of emerging countries in the world economy has increased in recent years. However, one aspect highlighted by the literature is that the relevance of the currencies issued by them has remained low at the international level (Nabar and Tovar, 2017).

The degree of internationalization of a currency is closely linked to its use as a reserve currency, for the settlement of commercial and/or financial transactions and for foreign exchange, respectively. When it comes to *holding reserves*, for example, the highest share in the world is held by the US dollar, the euro, the Japanese yen, the pound sterling and the Chinese yuan (RMB). Together, they account for over 91% of international reserves (as reported in October 2020). However, the US dollar is dominant, with over 60% of the total, followed by the euro, with 20%.

Yet, although with lower weights, other currencies issued by developed countries are also used. The Canadian dollar, the Australian dollar, etc. are some of these currencies (Chart 1).

Chart 1: Composition of foreign exchange reserves worldwide, in 2007 and 2016-2020 (%)



Source: IMF (2020).

In addition to the above, in particular over the last decade, there has been increased interest in currencies issued by emerging countries, from the perspective of holding reserves. From 2007 (before the crisis) until now, their share of global foreign exchange reserves has relatively increased. The Asian world (including the renminbi) has shown a positive evolution. Given that the medium and long-term forecasts for their savings are positive, this trend is expected to further increase in the coming period.

Progress in the use of emerging economy currencies has also been made in terms of the settlement of commercial and/or financial transactions. Unlike the USD, the euro, etc., in several countries they have been supported by bilateral agreements on their commercial use. The renminbi, the Mexican peso and others are among the currencies that have been on the rise at the international level from this point of view.

Table 1: Turnover of over-the-counter (OTC) foreign exchange instruments, by currency (%)

Currency	Year				
	2007	2010	2013	2016	2019
USD	42.79	42.42	43.52	43.80	44.15
EUR	18.51	19.52	16.71	15.70	16.14
JPY	8.62	9.49	11.53	10.82	8.40
GBP	7.43	6.44	5.91	6.41	6.40
AUD	3.31	3.79	4.32	3.45	3.39
CAD	2.15	2.64	2.28	2.57	2.52
CHF	3.41	3.15	2.58	2.40	2.48
RMB	0.23	0.43	1.12	1.99	2.16
HKD	1.35	1.18	0.72	0.87	1.77

Source: author, based on BIS data (2020).

Last but not least, in terms of *foreign exchange*, four of the currencies that make up the SDR basket (dollar, euro, Japanese yen, pound sterling) are the most frequently traded. In foreign exchange, although less important in terms of developed financial markets, some currencies such as the Hong Kong-China dollar, the Singapore dollar and others are still taken into account. Although some of these currencies issued by emerging countries have become more relevant from an international perspective, in recent years they have been less used in the foreign exchange market. However, a growing trend can be seen in the case of RMB, which has become the fifth currency in the SDR basket since October 1, 2016.

3. Case study – the internationalization of the renminbi

In general, the internationalization of a currency is driven by specific market factors and/or discretionary measures. Market developments have been the basis for increasing the role of the US dollar, euro, Japanese yen and others at the international level. As for the renminbi, the government measures, aimed at increasing its use in the international trade and offshore markets, played an important role in its internationalization (Song, 2019)[3].

3.1 The motivations for RMB internationalization

As Gao (2019) points out, the acceleration of the internationalization of the currency by the Chinese government is related to the limited progress made on China's other two external guidelines, i.e., the involvement in the reform of the global financial architecture and the *Chiang Mai initiative (CMI)*[4], the latter seeking the strengthening of regional financial cooperation.

One of the reasons for which the internationalization of the RMB had not been seen by the Chinese authorities as an advantage until then was the need, in this context, for the liberalization of the capital account and the convertibility of the currency. The main fears related to these two aspects were that, given the still poorly developed national financial market compared to the that of the US, which is mainly based on the banking sector, the removal of control would be a vulnerability for the Chinese economy, as it could generate uncontrolled capital outflows, increase asset costs, etc.

However, the main reason for increasing the role of the RMB internationally was the strong exposure, comparative to the US dollar, which, influenced by Federal Reserve (FED) decisions, could affect its monetary and financial stability (Campanella, 2014). In 2008, China had reserves worth nearly USD 1 trillion, the highest volume in the world.

[3] Unlike the internationalization of other currencies such as the USD or the Japanese yen, which have been driven mainly by market developments.

[4] The Chiang Mai Initiative (CMI) is a multilateral foreign exchange agreement between members of ASEAN, the People's Republic of China (including Hong Kong-China), Japan and South Korea. It is the first regional currency swap agreement.

Furthermore, the benefits that the internationalization of the renminbi could bring to China, similar to those of the US dollar, the euro and others, were considered. An internationally accepted RMB would help reduce exchange rate risks, which could affect Chinese companies, would further stimulate trade in goods and services, ensure more favorable lending conditions in international markets, etc.

Moreover, symbolically, turning the renminbi into an international currency would mean a recognition of China's importance in the global economy (Nixon *et al*., 2015).

In addition, there are benefits that can be derived from the implications on monetary policy (the internationalization of the currency can contribute to improving its efficiency), from the increase in seniority income (Gao, 2011) and so on.

Last but not least, the opening that comes with it can drive Chinese financial institutions to become more competitive internationally and have greater access to financing. From this point of view, the internationalization of the RMB can contribute to the development of the Chinese financial sector. This could increase its role internationally and China could become a financial hub in the region.

3.2. Ways to internationalize the RMB

In the context of the debate over the future of the international monetary system, the renminbi is perceived as a serious competitor for the US dollar and the euro. It has seen significant gains in recent years, both in terms of its use in trade settlements, with China's increasing role in the global economy, financial transactions, foreign exchange operations, but also as a reserve currency.

Although certain measures to encourage its cross-border movement had been taken before, the internationalization of the renminbi has become a concern for the Chinese authorities in particular in the context of the 2008-2009 financial crisis. ***A first measure*** that was considered in this context was the launch of the pilot project *for the settlement of cross-border commercial transactions in RMB* (2009). Introduced in 5 of the commercially important cities (Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan), it sought to encourage Chinese exporters to conduct their international transactions in RMB. Subsequently, it was extended to 20 other provinces.

One of the Chinese government's strategies to increase the use of RMB in commercial transactions has been ***to conclude bilateral swap agreements*** (*BSAs*). Their purpose was to promote the use of RMB in the settlement of cross-border commercial transactions and to solve the problem of the lack of financing in this currency outside China, for importers. They provide foreign companies with the opportunity (and encourage them) to obtain financing in Chinese currency, so that they can pay for goods and services imported in renminbi[5].

China has been a major provider of such agreements in the CMI in Asia since the 1997-1998 Asian financial crisis. However, some of the agreements from this period were signed in USD and did not have a role in promoting the use of RMB (Nixon *et al*., 2015).

A new stage in the use of this instrument began with the signing of the first agreement outside the WCC with South Korea (RMB 360 billion) in December 2008.[6] It came as a response to the economic crisis and made an important contribution to saving the Asian countries at that time. The model was the one implemented by the US and other countries[7]. In addition, other agreements were signed during the same period, such as those with Hong Kong-China, Malaysia, Belarus, all in the RMB (Gao, 2011).

In 2017, the People's Bank of China signed bilateral swap agreements with 36 central banks in the total amount of RMB 3.3 trillion (USD 500 billion). Most had maturities of 3 years, with the possibility of extension. In 2019, there were agreements with 39 such authorities, amounting to RMB 3.7 trillion (PBoC, 2020).

What were the criteria for choosing the partners with whom these bilateral swap agreements were signed? As several authors show, the main aspects considered were the existence of bilateral trade links, the presence of

[5] This is a viable solution especially in the context in which, under the capital account, the currency was not convertible, which made the free movement of RMB funds in China impossible.

[6] It is worth noting that this agreement was renewed successively, most recently in October 2020 when the agreement was extended to the value of RMB 400 billion , in force from 11 October 2020 to 10 October 2025. See: https://www.bok.or.kr/eng/bbs/E0000634/view.do?nttId=10060832&menuNo=400069.

[7] As an example, the FED in the US signed a number of temporary bilateral currency swap agreements during the 2008-2009 financial crisis to help counterparty central banks cope with USD liquidity cuts. Also, in 2013, it turned five of these temporary agreements into permanent agreements. These included the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank.

free trade agreements, and, to a smaller extent, the political relations, the institutional framework, and others (Song, 2019).

In terms of effectiveness, there is little data to confirm that they have indeed brought benefits. There are indications provided by the PBoC showing that only a small portion of the provided amounts was used in these agreements (Song, 2019).

A second direction in the Chinese authorities' strategy to internationalize the RMB was to develop **the offshore market**. From a practical perspective, it ensures a favorable framework for RMB to be used for transactions among non-residents.

An important role in the development of the Chinese offshore market was played by the gradual removal of restrictions on the movement of RMB for trade operations first in Hong Kong-China (2009) and later in the relations with the rest of the world. Since 2010, it has become convertible for current account transactions, which has stimulated transactions in this currency between domestic and foreign companies (Nixon *et al*., 2015).

As a result, Hong Kong-China has become one of the main offshore centers for RMB. Later, such offshore renminbi centers appeared in Taipei, Singapore, Seoul (among the Asian ones), London, Frankfurt, Paris, Luxembourg, and others.

The main barrier against a more pronounced development of the Chinese offshore market was the lack of convertibility of the RMB on capital accounts, with the settlement of financial activity transactions having a lower contribution to the non-resident use of the RMB.

The way the Chinese offshore market works is shown in Table 2.

Table 2: RMB flows between mainland China and the offshore market

<table>
<tr><th></th><th colspan="2">Current account</th><th colspan="2">Capital account</th></tr>
<tr><td></td><td>Trade in goods and services</td><td>Income flows</td><td>Direct and portfolio investment</td><td>Other</td></tr>
<tr><td rowspan="3">Flows to offshore market</td><td>Chinese importers paying offshore exporters</td><td>Individuals' remittances</td><td>FDI denominated in RMB</td><td>Foreign central banks activating currency swaps with PBC</td></tr>
<tr><td rowspan="2">Chinese importers paying offshore exporters</td><td rowspan="2">Corporate cross-border RMB "pooling"</td><td>Shanghai-Hong Kong Stock Connect program; Shenghzen-Hong Kong Stock Connect program</td><td rowspan="2">Cross-border RMB loans</td></tr>
<tr><td>RQFDII – domestic</td></tr>
<tr><td rowspan="3">Flows to China</td><td>Offshore importers paying Chinese exporters</td><td>Individuals' remittances</td><td>RMB-denominated overseas direct investment</td><td>Foreign central banks unwinding currency swaps with PBC</td></tr>
<tr><td rowspan="2">Foreign tourists converting RMB outside China for use in the mainland</td><td>Corporate cross-border RMB "Pooling"</td><td>Shanghai-Hong Kong Stock Connect program; Shenghzen-Hong Kong Stock Connect program</td><td rowspan="2">Cross-border RMB loans</td></tr>
<tr><td>Repatriated dim sum bond issuance</td><td>RQFDII</td></tr>
</table>

Source: Nixon, Hatzvi, Wright (2015).

The development of the Chinese offshore market has been supported by the government mainly through the establishment of clearing banks, various initiatives on non-resident capital market participation (QFII - *Qualified Foreign Institutional Investor*, RQFII - *Renminbi Qualified Foreign Institutional Investor*), central bank investments in RMB assets, cross-border RMB loan schemes and programs such as the *Shanghai-Hong Kong Stock Connect* and the *Shenghzen-Hong Kong Stock Connect Program*, etc. The bilateral swap agreements have also played an important role in the development of the Chinese offshore market.

In terms of the **clearing activity**, the first steps were taken in 2003, when the first such bank outside China (*Bank of China* branch) was set up in Hong Kong-China (BOCHK). The role of such a bank was to ensure, through clearing operations, the links of foreign entities with onshore banks and thus with the domestic market (Nixon *et al*., 2015).

The main advantage of its establishment was that, unlike the previously used methods (the use of payment systems of foreign clearing banks or the "correspondence" relations between them and the Chinese banks), the payments in RMB could be made directly, avoiding settlement delays, ensuring lower costs, etc. Moreover, they symbolically validate the offshore market and provide confidence in the use of the RMB for transactions within it.

Among other things, BOCHK could accept deposits from foreign banks, settle transactions on the offshore market, and it could trade on the Chinese interbank foreign exchange market, all in Chinese currency. In addition, several branches and subsidiaries of Chinese banks have started to offer "correspondent" services to offshore banks, making it easier for the latter to open RMB accounts (at Chinese banks) and settle transactions in this currency.

Subsequently, other such clearing banks were set up outside Hong Kong. In 2016, there were 23 Chinese clearing banks worldwide (all offshore branches of Chinese commercial banks). By 2019, their number has increased. In the recent period, the total volume of clearing operations has been of 348.17 trillion RMB, a 10% increase comparing to the previous year (2018) (PBoC, 2020).

Regarding the **RQFII** program, it facilitates the investments in China for foreign (offshore) RMB holders. Based on it, they have the possibility to sell or buy bonds and other securities on/from the Chinese market shares.

From this point of view, it can be said about RQFII that it was also a measure in addition to those regarding the liberalization of the capital account. It offered new opportunities to foreign investors, thus contributing to the increase of volume of RMB transactions on the offshore market.

The RQFII program was launched in 2011 and was also available to Hong Kong-China investors. It was introduced in addition to the *Qualified Foreign Institutional Investor* (QFII) program, which allows foreign investors to use foreign currency to invest in Chinese financial assets. The initial share held in RMB was of 20 billion[8]. In 2015, the share for Hong Kong was raised to RMB 270 billion, and the total worldwide quota was RMB 600 billion (Nixon et al., 2015). In 2019, there were financial institutions from 21 countries that held such shares, with a total value of RMB 1.99 trillion. This year alone, 23 financial institutions requested RQFII shares worth RMB 694.1 billion (PBoC, 2020).

Unlike QFII, RQFII offered investors similar investment opportunities but greater discretion in portfolio allocation and fewer restrictions on repatriation of funds (Nixon *et al.*, 2015).

It is worth noting that restrictions on investment quotas have also been removed as of September 2019 for pilot countries or regions for RQFII. This decision sought to further encourage authorized foreign investors to invest in RMB on the Chinese domestic market (PBoC, 2020). Since November 2020, both QFII and RQFII were brought together under the so-called *Qualified Foreign Investor* (QFI), which came up with a single set of rules, reducing the time to approve applications (from 20 days to 10 days) and new areas to invest (NEEQ securities, asset-backed securities, commodity futures etc.) (ASIFMA, 2021).

Furthermore, the *Shanghai-Hong Kong Stock Connect* (launched in 2014) and the *Shenzhen-Hong Kong Stock Connect* (2016) programs created direct links and stimulated the flow of investments in RMB between the Shanghai/Shenzhen and Hong Kong-China Stock Exchange, with Chinese and offshore investors having the opportunity to buy or sell securities in partner markets through local brokers and clearing houses.

[8] RQFII (unlike QFII) was a quota-based program. Such a quota allowed the holding company to offer RMB investment products to a wide range of investors, including those outside its original jurisdiction, which provided investors without such a quota the opportunity to have exposure to Chinese stock and bond markets.

Similar to them, a number of mutual mechanisms and markets, such as Bond Connect and others, have been established.

3.3. Evolutions of RMB in the internationalization process

As economic theory shows, the internationalization of a currency is supported by a number of factors, such as: the size of the economy, the share of international trade and of the financial markets, network effects, etc. In terms of the size of the economy, it directly influences the potential of a currency to be accepted in transactions on international markets.

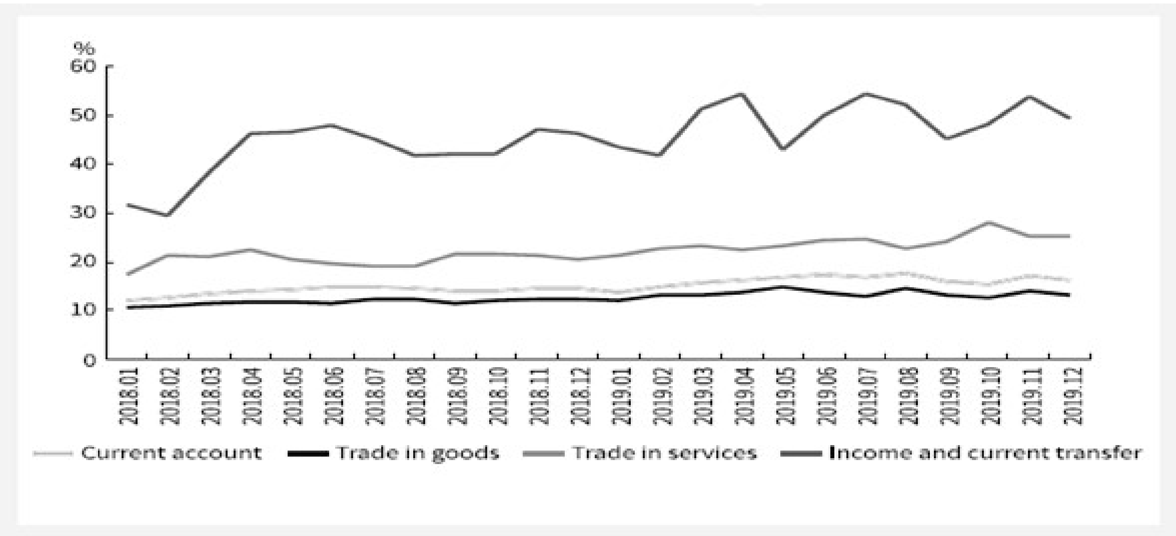
Table 3: Comparisons between the size of the economy and the share of international trade in 2019 (%)

Ranking position	Country	Share in world GDP	Share of international trade
1	US	24.4	8.8
2	China	16.4	13.3
3	Japan	5.8	3.8
4	Germany	4.4	7.9
5	India	3.3	1.7
6	UK	3.2	2.4
7	France	3.1	3
8	Italy	2.3	2.8
9	Brazil	2.1	1.9
10	Canada	2.0	2.4

Source: author based on World Bank (2020) and WTO (2020) data.

At the moment, as Table 3 shows, China is the world's second largest economy in terms of share of world GDP and the largest trading power. Along with the above measures, it has played a significant role in promoting the use of RMB for commercial and financial transactions. In terms of trade settlements, renminbi began to be used mainly since China's acceptance as a member of the World Trade Organization (WTO) in 2001. In 2019, for example, it was the largest trading partner for Asia and sub-Saharan Africa, and the second for the EU, the US and Latin America. In terms of imports, China was the main partner for the US, the EU and Japan (WTO, 2020).

Chart 2: Share of current account settlements, in RMB, in total cross-border settlements, in 2018-2019



Sursa: The People's Bank of China (2020).

As shown in the chart above, in 2019, the total amount of cross-border settlements related to trade in goods reached RMB 4.24 trillion, a 16% increase comparing to the previous year. From this perspective, their share in total transactions increased to 13.4% (compared to 11.7% in 2018) (PBoC, 2020).

In terms of RMB settlements related to services, they amounted RMB 951.5 billion, 23.8% more than in 2018. Thus, their share in total transactions reached 23.8% (compared to 20.4% in 2018) (PBoC, 2020).

It should be noted that both cross-border settlements related to trade in goods in total transactions and those related to services registered record shares in 2019 (CEIC Data, 2020) supported, among others, by China's trade developments in general, but also by the more recent increase of use of the RMB in relation to various partners within the Belt and Road initiative (BRI).

Despite positive developments, the renminbi ranks 5th among the most used currencies in international payments, with a share of only 1.97% in October 2020 (for the US dollar, this share is 38.45% and for the euro 36, 29%) (SWIFT, 2020). To compare, this share was 2.8% for RMB in 2015.

On the offshore market, most of these operations are carried out in Hong Kong (74.77%). Other RMB payment settlement centers are located in the United Kingdom (6.39%), Singapore (3.65%), the US (3.03%), Taiwan (2.29%) and others (SWIFT, 2020).

Chart 3: Investment flows to and from China, in 2002-2018

Sursa: Lien, Sunner (2019).

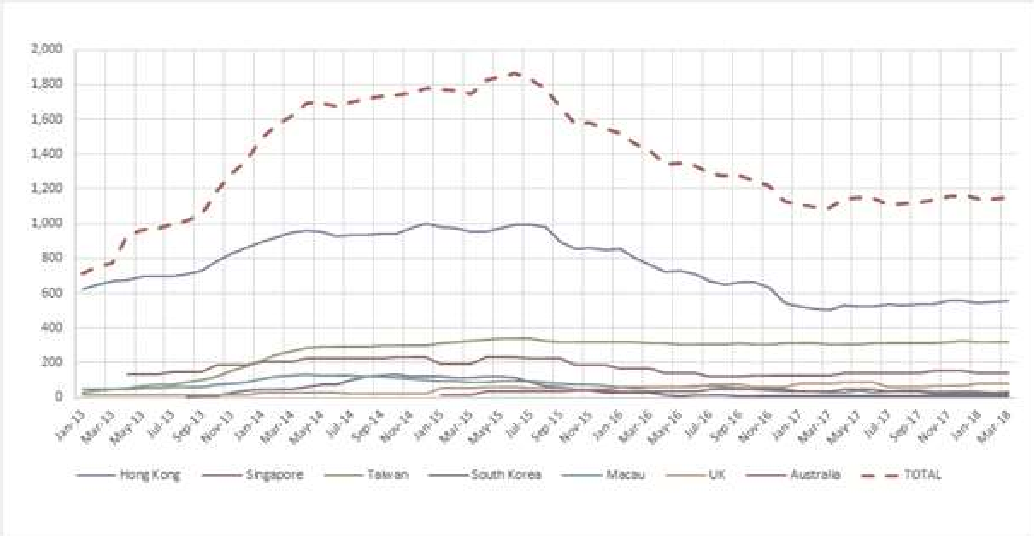
In addition to the above, following the measures taken by the Chinese government, the volume of investments in RMB has increased considerably in recent years. If RMB investment flows outside China accounted for 4% of the total in 2012, the percentage was 16% in 2014 and 14% in 2019 (Nabar and Tovar, 2017; PBoC, 2020). This was primarily supported by the increase in the number of RMB settlement counterparties abroad. In 2015, for example, the volume of FDI renminbi settlements and foreign direct investments made by China increased by 65.2% compared to 2014, and increased by 228.1% in 2016. In 2019, the volume of RMB settlements in FDI reached RMB 2.02 billion, an 8.6% increase compared to 2018 (PBoC, 2020).

At the same time, starting with 2004, the RMB began to be used for **bank deposits** abroad. The first such measure was implemented, as mentioned, for Hong Kong-China. However, an increase in the volume of bank deposits in renminbi with foreign banks began to be recorded, starting with 2009, when the RMB settlement system for cross-border trade was established. This measure mainly aimed at the establishment of deposits by corporations. In this context, the volume of deposits attracted by non-resident banks increased from 100 million renminbi in 2010 to 2.3 billion renminbi in 2014 (Nabar and Tovar, 2017). In 2018, it decreased to RMB 1.9 billion (Global Capital China, 2020).

The expectations of rising interest rates, in the context of unfavorable market conditions, and the devaluation of the Chinese currency (Lien & Sunner 2019) were among the causes of the reduction in the volume of RMB deposits attracted by non-resident banks since 2014. Moreover, a large part of the cash flow went, with the gradual relaxation of the capital account conditions, towards more attractive shareholdings.

As the chart below shows, most of these offshore RMB deposits are in Hong Kong-China.

Chart 4: Trends in offshore deposits in RMB



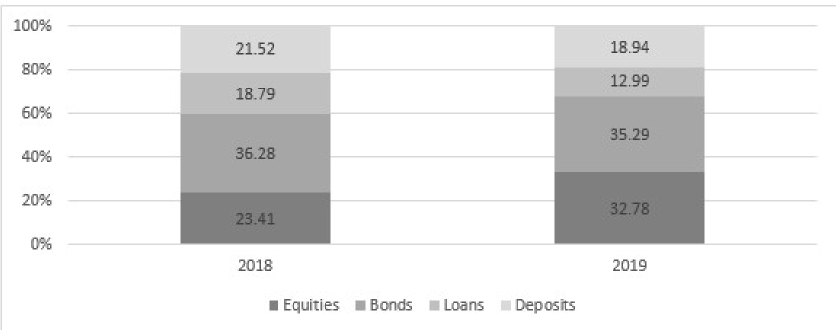
Sursa: Global Capital China (2020).

Also, in terms of the issuance of RMB bonds by non-residents, this has mainly been possible since 2007, when the Development Bank of China opened its first branch in Hong Kong-China[9]. Initially it only allowed mainland commercial banks to issue such securities (*dim sum* bonds). Private companies that have issued such bonds so far have included McDonald's, Volkswagen and others. However, the Central Bank of China issued the first sovereign bonds in Hong Kong-China in September 2009 (Nabar and Tovar, 2017).

It should be noted that until the establishment of ABF2 in 2005[10], all bond issues were in dollars. With the launch of ABF2, private and public entities were able to issue bonds in RMB at regional level. The markets in China, Hong Kong-China, Indonesia, South Korea, Malaysia, the Philippines, Singapore and Thailand were targeted by this measure.

Apart from Asia, a renminbi bond center is London, where HSBC issued the first such financing instrument in April 2012. The largest offshore renminbi bond issue in London took place in September 2014. Its value, belonging to the International Financial Corporation (IFC) was RMB 1 billion. Also, the first issue of sovereign bonds denominated in RMB was made by the United Kingdom (RMB 3 billion). Its purpose was to increase foreign exchange reserves. Other sovereign bond issues in the RMB were also made in the Canadian province of British Columbia and others (Nabar and Tovar, 2017).

Chart 5: RMB financial assets held by non-residents in 2018 and 2019 (%)



Source: The People's Bank of China (2020).

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[9] The first such bond issue outside China, the Development Bank of China, was RMB 5 billion. Subsequently, such bonds were issued by the Import-Export Bank of China (RMB 2 billion), Bank of China (RMB 3 billion), Communications Bank (RMB 5 billion), etc.

[10] ABF means the Asian Bond Fund.

4. Conclusion

All developments presented in this paper have played an important role in opening up the Chinese capital market outside the mainland and thus in promoting the use of RMB for financial and commercial transactions. Also, although still poorly developed, the Chinese capital market received a boosted from these measures, which helped reduce the "banking". All this has the potential to provide benefits to China, which it might otherwise have provided through protectionist measures, in particular reducing exchange rate risks for indigenous companies, stimulating trade in local goods and services etc. We consider that the role of the RMB in IMS will continue to increase, as its internationalization is stimulated by China's own economic strength and importance in global trade and financial flows. Moreover, the protectionist measures adopted by some countries, including the United States, to counter China's rise, are more likely to stimulate the internationalization of the Chinese currency.

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