

The Globalization of the Chinese Yuan (CNY) and Its Rising Role in the International Currency System

Xin Chen*

In the past few years, the Chinese government has put the internationalization of CNY on the map. Besides regular reforms such as facilitating CNY trading settlement and relaxing capital accounts, China deployed the Pilot Free Trade Zone and the One Belt One Road policy to significantly expand investment channels for CNY. It was also considered as a response to the criticism of CNY's trade-driven model. CNY was developing from a trade currency to an investment currency and now has the potential to be a global reserve currency. The growth of CNY as an international currency could counterbalance the US dollar-dominated system and contribute to regional and international financial constancy. However, CNY internationalization is a double-edged sword. Inflow surges or disruptive outflows of capitals can give rise to macroeconomic fluctuation. With regard to the potential risks, it is suggested that Chinese authorities adopt more market-based measures and make the best of the international arrangements to protect the domestic financial integrity and stability.

Keywords: CNY/RMB, Currency Internationalization, Capital Account Liberalization, SDRs, Investment-Driven, Financial Risk

* Associate Professor of Xiamen University, Faculty of Law. LL.B./LL.M./Ph.D.(Xiamen). ORCID: <http://orcid.org/0000-0001-6051-8256>. The author may be contacted at: echoflying@hotmail.com / Address: School of Law, Xiamen University 422 South Siming Road, Xiamen, P.R. China 361005. This paper is supported by Ministry of Education Fund of China and Program for Innovative Research Team of Xiamen University.

1. Introduction

An international currency may be defined as one widely accepted in the world and used for trade settlements, investments and foreign reserves.¹ In recent years, Chinese authorities have invested a flurry of efforts to encourage cross-border use of the Chinese Yuan (“CNY”). China’s 13th Five-Year Plan (2015) indicated:

China will push forward the marketization of exchange rates, orderly realize convertibility of its currency on capital account and promote the going out of the CNY in the world. A negative list for foreign exchange management will be established, and currency exchange controls over outbound investment will be loosened.²

In November 2015, the IMF finally decided to add CNY to the composition of its Special Drawing Rights (“SDRs”) basket.³ Accordingly, there were many reports were discussing CNY’s rising important role in the international monetary system.⁴ However, rewards are always accompanied with costs. Since mid-2015, the depreciation of CNY has raised questions on whether these strategies are in China’s best interests. The main reason for fearing CNY globalization mainly addresses the stabilization of the national financial system. The primary purpose of this research is to evaluate the policy framework by China to accelerate internationalization of CNY; it will further highlight measures to successfully encounter financial risks in line with the market.

This paper is divided into six parts including a short Introduction and Conclusion. Part two will review China’s proactive strategy to increase international use of the CNY. Part three will provide background and policy consideration on globalizing CNY, transforming from the trade-driven to the investment-driven model. Given CNY included in SDRs basket, Part four will regard the new status of CNY in the international monetary system. Part five will discuss the risks and countermeasures dealing with the cross-border capital flow.

2. Current Globalizing Progress of CNY

China’s recent efforts to globalizing CNY include: (1) creating a more transparent