

# RMB Internationalization Roadmap and China Regional Integration Strategy

Jun Xue ( <sup>Setu</sup>薛 <sup>Gun</sup>軍 )

## Abstract

China is constructing RMB offshore center and promoting RMB internationalization from regional integration. To do so, China tries to make a globalization strategy that is advantageous for themselves. RMB internationalization roadmap is based on one main line and two dimensions. The main line is opening capital account and RMB exchange rate to float. The two dimensions are offshore market, regional integration and the Chinese version of globalization.

**Keywords:** RMB internationalization, China regional integration strategy, capital account openness

## 1 . “ ASEAN + China ” deeper economic connection

### 1.1 Trade and investment

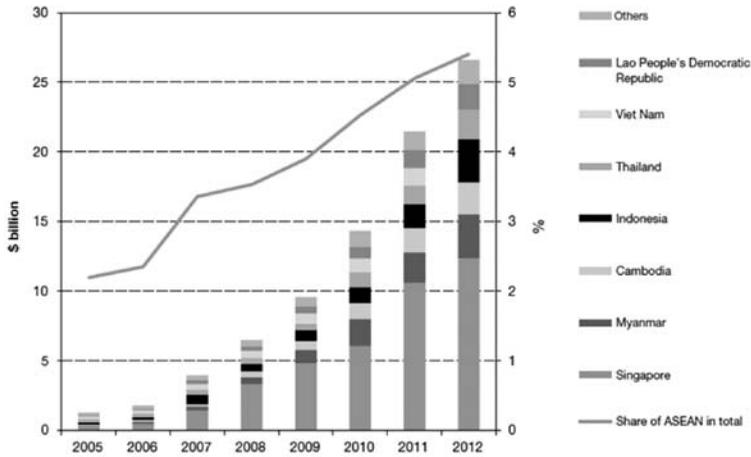
“ ASEAN + China ” FTA started from 2010 . Establishments of free trade area affect not only the circumstances of trade inside countries, but also the outside area and all over the world.

ASEAN is the important strategic area for Chinese investment, trading and RMB regionalization. Even though China and ASEAN are included in the supply chain of same “ Asian factory ”, complementarity of China and ASEAN trade is still larger than competitiveness.

In 2013 , China and ASEAN trade is No.3 and No.1 , total amount accounts for 10.6% of Chinese total amount of trade. The speed of growth is very fast for a decade, it is faster than Japan, USA and EU.

From January to August in 2014 , RMB trade settlement of China and

Figure 1 Percentage and stock of Chinese ODI from 2005 to 2012 in ASEAN



Source: UNCTAD, *World Investment Report 2014*

Table 1 Chinese ODI to each economic area in 2013

Economic area	Total amount	Flow		Stock	
		Compared from the last year (%)	Ratio	Amount of money	Ratio (%)
Hong Kong	628.24	22.6	58.3	3,770.9	57.1
Europe	45.24	-26.1	4.2	401.0	6.1
ASEAN	72.67	19.1	6.7	356.7	5.4
America	38.73	-4.3	3.6	219.0	3.3
Australia	34.58	59.1	3.2	174.5	2.7
Russia	10.22	30.2	0.9	75.8	1.1
Total	829.68	17.7	76.9	4,997.9	75.7

Source: *Statistical Bulletin of China's Outward Foreign Direct Investment*

ASEAN accounts for 13% of total amount, whole of the world does 15.8% . We can assume that the value of ASEAN is very high when we take into account the extraordinary amount of Hong Kong.

In investment, ODI from China to ASEAN, flow is 6.7% of the whole, stock is 5.4% of that, and it is the third largest amount next to Hong Kong and EU. Parts of ODI went to ASEAN via Hong Kong and Cayman islands. Therefore, when we take into account this, maybe this is much more. ODI of China in 2013 accounts for 58.5% of the whole world of it, Cayman Islands is 8.6% and ODI of China to developing countries is 85.1% .

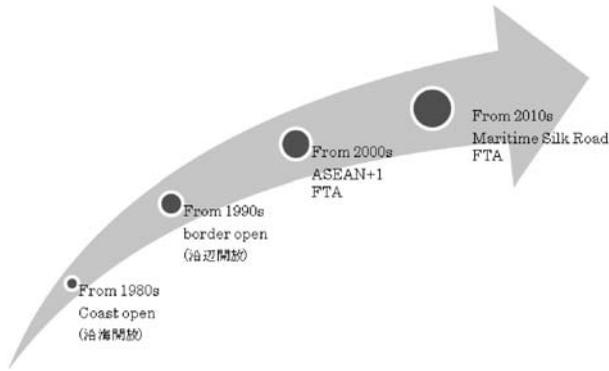
## **1.2 Chinese new strategy to ASEAN: constructing “ the 21st Century Maritime Silk Road ”**

For both geopolitics and economic development, ASEAN is important for China. In 2010 , China and ASEAN established “ ASEAN + 1 ” free trade area. Because of the size of population, 1.8 billion, it became the biggest world free trade area.

The recent rise of “ One Belt and One Road (一帶一路) ” strategy has made Chinese regional integration strategy become deeper. Because marine Silk Road includes ASEAN, it makes deeper connection to ASEAN . “ One Belt and One Road ” strategy refers to “ the Silk Road Economic Belt ” and “ the 21st Century Maritime Silk Road ” .

The reason why China raised such a strategy is that they want to use historical and geopolitical advantages sufficiently. China trades on land, sea, and Silk Road. Therefore, China has basis of trade still now. Moreover, there are big network for ethnic Chinese and overseas Chinese in ASEAN. It is estimated it helps development of strategy very much.

Figure 2 Changes and developments of strategy of China to ASEAN



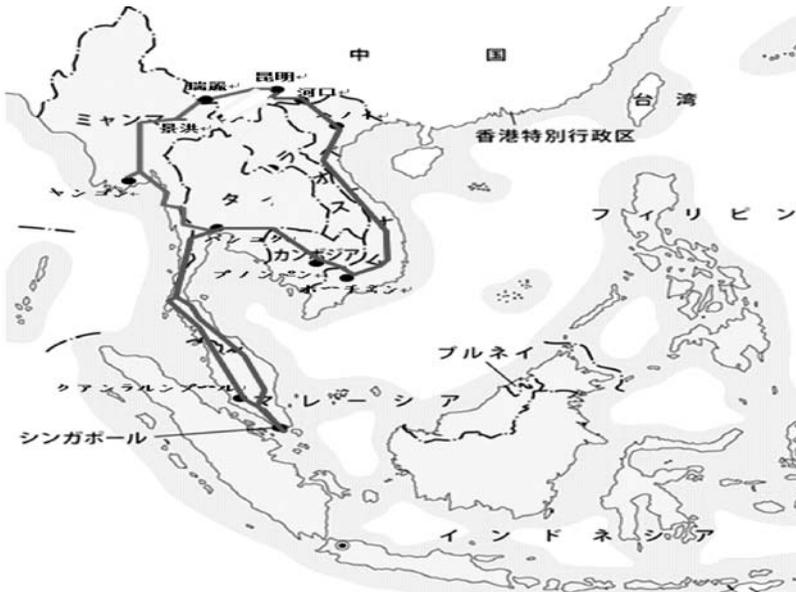
Moreover, China has a construction plan of train through ASEAN. Look at figure 3 , there are three routes.

In Bangkok, Thai, Asia-Europe meeting (ASEM) was held in November 1996 . In the meeting, Malaysian Prime minister Mahathir suggested “ Trans-Asian Railway ” . This is the railroad system which connects Asia to Europe in the same manner as Trans-Siberian railroad. The train leaves Singapore and via Kuala Lumpur in Malaysia, Bangkok in Thai, Yangon in Myanmar, Kunming, Beijing, Dandong in China, Pyongyang in North Korea, Seoul in Korea and arrives Busan in Korea.

ASEM also has plans like “ Silk Road railway ” from Kunming from Istanbul in Turkish and “ Trans-South Asia railway ” from Yangon via Calcutta and New Delhi in India to Istanbul.

It must spend many days and months to construct. But some schedules from China to ASEAN were already presented and construction is partly started. In the future, maybe, it will accompanied by the export of high-speed railway from China and Japan. Figure 3 shows it has three ways.

Figure 3 “Trans-Asian Railway”



## 2 . Chinese Version globalization strategies seen from integration strategy of Asian Pacific area

### 2.1 “One Belt and One Road (一帯一路)” and Asian infrastructure investment bank (AIIB)

#### (1) About “One Belt and One Road (一帯一路)” strategy

When Chinese President Xi Jinping visited Central Asia and Southeast Asia in September and October of 2013 , he raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road (hereinafter referred to as the Belt and Road) , which have attracted close attention from all over the world. At the China-ASEAN Expo in 2013 , Chinese Premier Li Keqiang emphasized the need to build the Maritime Silk

Road oriented toward ASEAN, and to create strategic propellers for hinterland development. This is one of the free trade agreement systems for construction of partnership in the field of infrastructure and culture communication.

Both of construction of “ the Silk Road Economic Belt ” and “ the 21st Century Maritime Silk Road ” can be regarded as the Chinese second strategy of openness to the international community, next to the Chinese economic reform in 1978 .

“ One Belt and One Road ” strategy can be considered not to fight the TPP led by USA, but to prepare for the next to join the threshold higher TPP.

21th Maritime Silk Road emphasize the strengthening of economic cooperation, especially with ASEAN. China wants to make the ASEAN + CHINA connection deeper, using the 21th Maritime Silk Road. In addition, China tries to show the leadership construction of RCEP, based on the close economic connection like ASEAN + 1 , ASEAN + 3.

## **(2) About Asia Infrastructure Investment Bank (AIIB)**

When Chinese President Xi Jinping and Premier Li Keqiang made a round of visits to South Asia in October 2013 , China suggested the establishment of Asian Infrastructure Investment Bank (AIIB) which supports through infrastructure of Asian countries.

On July 2015 , founder’s agreement signing ceremony of AIIB was held and 57 countries, found members, came together. This started to move to found within the year. The capital for establishment of the bank is increased to 100 billion dollars, compared with the first plan of 50 billion dollars. In addition, China invested 29.7 billion dollars and has 26% of voting right.

Japan decided not to join with USA, because of anxiety that Chinese effects reflect to the standard of financing or system.

In the future, they are planning to establish its headquarter in Beijing and open by the end of 2015 .

There are three purposes of establishing AIIB.

- 1 ) Contribution of “ One Belt and One Road ” strategy.
- 2 ) Promote the first step for regionalization of RMB for internationalization .
- 3 ) Complement Asian Development Bank which is said to be the compete rival. Each percentage of money for investment to ADB from the USA, Japan and China are 15.7% , 15.6% , and 5.5% . The capital of the bank is 165 billion US dollars.

Even though some people regarded establishment of new bank as the challenge to the international financial system that USA leads, Asian countries, including ASEAN accept this. The reason is that a large amount of money is needed to improve the infrastructure of Asian countries, but ADB cannot meet their needs.

World Bank raised the investment rate to China from 2.8% to 4.2% in 2010 . Even though China has the second largest GDP in the world, Japan invested 6.8% , USA invested 15.8% .

Both USA and Japan invested about 15% in ADB and USA refuses more investment in ADB and other countries. Moreover, USA has an experience that USA and IMF opposed the plan of Asian monetary fund, suggested by Japan.

### **(3) About establishment of “ Silk Road Fund ”**

On November eighth in 2014 , when APEC Beijing is held, President Xi

declared establishment. The capital is 40 billion dollars.

Some reports say that this is Chinese “ Marshall Plan ”. I think this is not right. The reason is that the main purpose of “ Silk RoadFund ” is regional cooperation and development and this is different from the “ Marshall Plan ” because its purpose is support.

## **2.2 Chinese regional integration strategies in Asian pacific area is the preparation of joining TPP**

President Xi used the keyword many times that “ Asian pacific area regionalintegration ”.

This is based on “ One Belt and One Road ” strategy and promote three regional integration strategies in Asian pacific area.

- 1 ) To promote area integration of China, Japan, Korea and Russia. This is north east area.
- 2 ) Mainly, construct China and Pakistan corridor, Bangladesh-China-India corridor and China-Singapore corridor, based on free trade area of China + ASEAN. This is south area.
- 3 ) Area integration in China and central Asia, they aim construction the China-Iran-Turkish corridor and Eurasia Land Bridge, includes Kazakhstan, Turkmenistan, Uzbekistan and Tajikistan. This is west area.

There are two steps to promote.

- 1 ) Making better infrastructure includes traffic, electricity and communication. To do this, establishing AIIB and “ Silk Road Fund ” is needed.
- 2 ) Make it larger both of their economics, trade and communication and promoting Chinese capital extending includes financial business.

China and Asian developing countries are challenging TPP and TIPP,

lead by USA. TPP lead by USA is not only for extending their own economic model, but also the restriction for China.

In long term, China has to regard joining these new agreements positively as the chance for China. But for Asian countries, including China, this is difficult in short term. China will join TPP. They may promote RCEP and FTAAP in short term strategy at the present time.

Sooner or later, I have the point of view that USA will accept China's joining to TPP.

Even though USA has an ABC (Anyone but China) strategy a little, but if there are no emerging economies, especially the joining of China, there would be no substantial meaning for TPP.

According to Figure 4 , world investment report in 2014 which compared the world direct investment 2013 and from 2005 to 2007 , the speed of growth area integration mainly joined developing countries are much higher than the area integration mainly joined developed countries, like TPP. About TPP, even though the number of 2013 is less than the number of average of from 2005 to 2007 . This can be because the growth of developing

Figure 4 World direct investment compared 2013 and from 2005 to 2007 , seen from area integration

Regional/inter-regional groups	Average 2005-2007		2013		Change in share (percentage point)
	FDI Inflows (\$ billion)	Share in world	FDI Inflows (\$ billion)	Share in world	
G-20	878	59%	791	54%	-5
APEC	560	37%	789	54%	17
TPP	363	24%	458	32%	8
TTIP	838	56%	434	30%	-26
RCEP	195	13%	343	24%	11
BRICS	157	11%	304	21%	10
NAFTA	279	19%	288	20%	1
ASEAN	65	4%	125	9%	5
MERCOSUR	31	2%	85	6%	4

Source: UNCTAD, *World Investment Report 2014*

market in TPP offset the speed of growth of USA.

Before the negotiation of TPP, China continues negotiation with RCEP and FTAAP (APEC) . But both of them are regarded negatively by USA and India.

It is expected because of the existence of TPP, it has the needs of FTAAP of US less and about the FTAAP in the future, it will incorporate the part of Asian trade to the TPP. When the situation becomes like this, it will be important meaning of deeper connection for China and USA in FTAAP.

RCEP, Regional Comprehensive Economic Partnership is suggested by ASEAN in November 2011 . This is the idea of large comprehensive economic partnership and six countries, Japan, China, Korea, India, Australia, and New Zealand are putting together the five FTA that ASEAN has. After that, the discussion by sixteen countries was held and the negotiation is raised formally at the ASEAN top-level meeting in November 2012 . When RCEP becomes real, the large economic area will appear. This includes 3.4 billion people, the half of the world , 20 trillion dollars of GDP, about 30% of it in the world and 10 trillion dollars of trade amount, about 30% of it in the world.

### **2.3 Final goal and present situation of Chinese version of globalization strategy**

In area integration strategy, it is not the last goal for China to join the TPP.

According to Shao Yu, Orient Securities Chief Economist , 1 ) The last goal of China is constructing new model of trading the benefit with foreign countries. In addition, creating the new systems that are benefit for themselves in international trade, investment and circuit of money has important

meaning in the global strategy . 2 ) Through the trading, China can have deep economic connection with other countries and can invest or export overcapacity and capital too . 3 ) Moreover, China can incorporate the internationalization strategy of RMB in this process. Finally, Chinese economic effect will be more through the internationalization of RMB.

When Asia pacific area regional integration strategy and “ One Belt and One Road ” strategy that will be held in the future affect each other, it will help Chinese version globalization strategy.

A commentator, Shi Qipin, thinks that Chinese version globalization consists of three stages , 1 ) expansion of each FTA , 2 ) making deeper interrelationship on land and marine , 3 ) Setting new standards includes internationalization of RMB.

But, present situation of China is on the first stage of this strategy. Especially, China is scarce of knowhow and persons of talent in the international financial field. USA, on the other hand, can lead international policies because of the member of G8 , IMF, the World Bank, and regional development organization, United Nations, BIS and IOSCO. In addition, United States Department of the Treasury can usually appoint executive director, president and Vice-president of IMF and World Bank. China, on the other hand, has not power in the international organizations. See Table 2 .

At present, China against the United States by military means is unthinkable. In the economic sphere, Chinese government knows that there is a big gap in USA and China. Constructing “ cooperate + competition ” connection is only the way that China can do for win-win connection with USA.

Table 2 Participate situation of China of international organizations

Name of Organizations	Public Agency that join	The rank of organizations	Conditions of activity	Notes
<b>G20</b>	Ministry of Foreign Affairs	Leader of the China Minister class	Twice in a year	
	Ministry of Finance			
	People's Bank of China			
	Banking Regulatory Commission			
<b>International Monetary Fund(IMF)</b>	People's Bank of China	Governor of the central bank Chief of the bureau	monthly meeting twice in a year	Dispatch one executive board and some advisors
<b>World Bank(WB)</b>	Ministry of Finance	Governor of the central bank Chief of the bureau	Monthly meeting twice in a year	Dispatch one executive board and some advisors
<b>Organisation for Economic Co-operation and Development(OECD)</b>	Not to join	Different in conferences	Extraordinary meeting	
<b>Financial Stability Board(FSB)</b>	Ministry of Finance	Governor of the central bank	Four times conference in a year	Hong Kong Monetary Authority participates
	Financial department	Minister class		
	Banking Regulatory Commission	General managers		
<b>Bank for International Settlements(BIS)</b>	People's Bank of China(Stockholder)	Governor of the central bank	Four times in a year and committee decides	Includes Hong Kong as one of the stockholders
<b>Committee on Payment and Settlement Systems(CPSS)</b>	People's Bank of China	Governor of the central bank or chief of the bureau	Four times	Hong Kong participates
<b>Committee on the Global Financial System(CGFS)</b>	People's Bank of China	Governor of the central bank or chief of the bureau	Four times	Hong Kong participates
<b>International Accounting Standards Board(IASB)</b>	Ministry of Finance	Vice minister		Hong Kong participates
	Banking Regulatory Commission	Chief of the bureau		
<b>Basel Committee on Banking Supervision(BCBS)</b>	People's Bank of China	Governor of the central bank		
	Banking Regulatory Commission	Banking Regulatory Commission is the vice president of this commission		
<b>International Organization of Securities commissions(IOSCO)</b>	Banking Regulatory Commission	President	Twice in a year	Hong Kong Securities Regulatory Commission is the member of technical committee
		Vice president		
		Chief of the bureau		
<b>International Association of Insurance Supervisors (IAIS)</b>	Insurance Regulatory Commission	Official next in rank		

Source: Sheng & Cheng ( 2011 )

### 3 . Development view of internationalization of RMB roadmap

In summary, RMB internationalization is promoted base on one main line and two dimensions.

### **3.1 Main line is liberalization of capital account and freely float exchange rate.**

The liberalization of capital account should be started from the release of RMB and then other currencies like dollars follow. The liberalization of capital is the biggest obstacle in RMB internationalization.

In order to achieve this main line, China needs to make freely flexible exchange rate through the market-oriented reform of RMB exchange rate.

### **3.2 The means of two dimensions**

One is to make larger and deeper through the market construction of RMB offshore market such as currency swap, direct dealing, and clearing banks and so on.

The other is to promote the use of RMB in its neighboring countries, in Asia, in BRICs and other areas through China regional integration strategy among globalization such as trade, investment, ODA and so on.

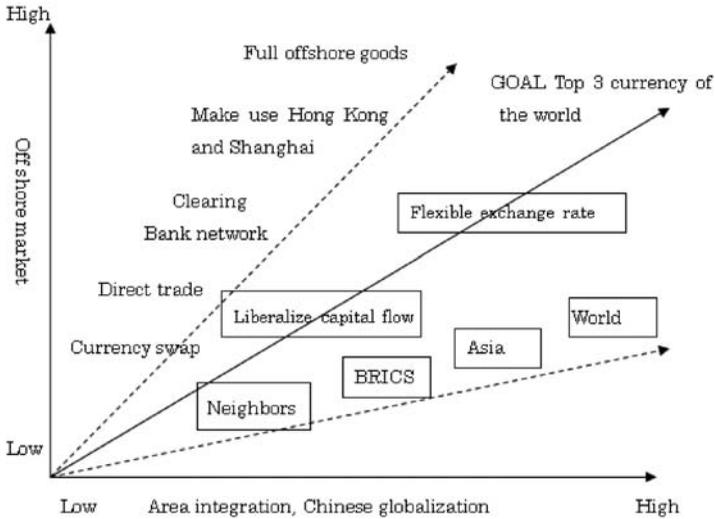
I show in Figure 5 that development view of RMB internationalization roadmap. The main line is opening capital account and floating RMB exchange rate. The two dimensions are offshore market, regional integration, and the Chinese version of globalization.

This type cannot be seen from another example of the first step of internationalization of currency.

According to the Chinese strategies of regional integration that targets the world, it is expected that RMB internationalization will be promoted like trade, investment and ODA in the future.

Moreover, it also can be expected that many varieties of RMB will appear. For example, Trade Yuan, BRICS Yuan, Marshall Yuan, Commodity Yuan,

Figure 5 Development view of RMB internationalization road map



Oil Yuan, Euro (Offshore) Yuan, Geopolitical security Yuan and so on.

At present, the weight of current stock in the world is dollar 60% , Euro 30% and RMB less than 1% .The chief economist of People’s Bank of China, Ma Jun (馬駿) expects in the monetary markets that first, weight of current stock of RMB in the world will grow in the coming 20years or so. This is about from 10% to 20% substitutes of Euro. In addition, he expects that it substitutes dollars from 2030 to 2060 . It is expected that the process that substitution of dollars will be high speed and weight of RMB will be 50% or more. This expectation is the most authoritative and surprised from the contents.

## 4 . Stance of Chinese government and problems of RMB internationalization

### 4.1 Stance of Chinese government

#### (1) Accelerating the opening of capital accounts

Chinese government regards the openness of capital accounts as too fast. But this aspect is changed very much and approve of this opinion is more since 2013 . In addition, they are speeding up both strategic plan and actual promoting.

According to the joint research of Chinese government and World Bank Institute, they expected that capital liberalization will be real until 2030 , but from the pace of present, it will be real in three or five years.

Table 3 Strategies and specific development ways that openness of capital account of Chinese government

	Until 2013	Since2014
Strategic ideas	None or not important Partly seen Not integrated Much opposition in a system	Began to be thought seriously Began to carried out Even though there is no total plan, but oppositions are less and less
Way of promote	Gradual Main is trade, investment, ODA	Gradual but faster Accelerating constructing Chinese offshore market From the promotion of area integration, it develops all area .
RMB Market	Strengthen offshore markets, the main is Hong Kong	Constructing offshore network Onshore markets of Shanghai become financial center. It can head for domestic offshore market .

<p>Liberalization of capital account</p>	<p>argued hotly and cautious theory is major 75% of capital accounts are opened</p>	<p>Reformists are major, but some, minor people oppose or doubt. In the first place, use of Shanghai FTZ &amp; Qianhai (前海) FTZ test area, and open capital account of RMB only. Through Shanghai &amp; Qianhai (前海) test area, encourage RMB of Hong Kong and world to backflow the mainland. To promote the mainland's RMB to overseas.</p>
--	---	---

**(2) Make use of Hong Kong and Shanghai**

This is another stance of Chinese government. Hong Kong is the special place for China. China uses geological advantage of Hong Kong and Shanghai to promote RMB internationalization.

Table 4 Tests of capital liberalization in Hong Kong, Shanghai and so on

Classification		Shanghai model	Qianhai(前海)model	Hong Kong	China	Japan
Current Account					Opened from 1994	Opened from 1972
	Whole				× Planned in 1999	Opened from 1994
Capital Account	Only RMB	Testing in Hong Kong	Testing in Hong Kong		×	
	RMB and foreign currency	×	×		×	

Note: The order of openness condition is × .

When foreign people trade foreign capital with China, they think they have to go through Hong Kong. This is also the way to hedge the risk of RMB internationalization, liberalization of capital to a certain degree.

Making RMB offshore financial center in Shanghai is a part of establishment of international financial center in Shanghai for China.

Recently, China seems to have an idea that building the offshore financial center, testing from Shanghai free trade area as the capital account open testing area in free trade area in the future.

#### 4.2 Problems of RMB

First is overestimation of RMB.

Adjusted amount of Yuan is 1.4% of the world until April 2014 and most of them are a little amount between the mainland and Hong Kong. Hong Kong is 97.26% in September 2014.

In the trade, seen from the point of view of payment currency in 2013 , Yuan vs dollars is 8.7% vs 81% . Dollars are about ten times as large as Yuan. In addition, in the Chinese 8.7% , about 80% is settled in Hong Kong. This means that RMB settlement amount is yet small, except Hong Kong.

In the international bond market, the ratio of RMB bond is only 0.3% in the middle of 2013 and 75% of them is possessed by firms in Mainland and Hong Kong. Other countries possessed RMB bond in that season less than 0.1% .

Seen from the foreign currency reserve ratio of the world, US dollars are 60% , Euro is 25% , and RMB is 0.01% . The scale of RMB is a little .

Next, RMB internationalization is difficult. June 24 , 2014 FT expressed difficulties in the future as the “ three mountains ”

1) Seen from the price of Yuan, the mountain that marketization of in-

terest and exchange rate, liberalization of interest and flexible exchange rate system.

- 2) Seen from the liquidity of Yuan, the mountain that liberalizes perfectly of capital account.
- 3) Seen from the depth of Yuan market, the mountain that the RMB bond market is very small.

After this, the faculty of government will be tested. From the point of view of the trilemma of currency, Mundell-Fleming Model, the dispute continues. Free capital flow, independence of monetary policy, fixed exchange rate system are independent of each other and we cannot realize all of three goals.

Chinese government realized the liberalization of trade in 1996. In those days, Chinese government declared positively “ we realize the openness of capital perfectly in 5 years ”, but they changed their attitude because of the outbreak of Asian financial crisis.

In reality, effects of financial crisis to Chinese economy which occurred from Lehman shock was prevented to a certain degree. Even now, China’s domestic opposition is still strong.

Table 5 Trilemma of currency and expectation of China in three or five years

	Capital liberalization	Fixed exchange rate	independence of monetary policy
Japan, USA etc... Euro etc...		×	×
10 years ago China	×		
Current China	×		
Expectation of China in 3 or 5 years	or	or	

Note: The order of openness condition is × .

Finally, what I want to emphasize is there is a political meaning of liberalization for China, a super control .

For China, after this, liberalization of the capital account means not only economic reform, but also the politic reform .

In internationalization of RMB, it is inevitable to fully open capital account of RMB and RMB free floating. But, if China realized perfect capital liberalization, it cannot deny the possibility of confusion of Chinese economy, society and politics.

**Main references:**

Yusuke. Kawamura (2013) . *A Book to Understand China's RMB Strategy in the Era of Xi Jinping (in Japanese)* . Tokyo: Kindai-Sales Press.

Edwin Lim, Michael Spence (2011) . *Medium and Long Term Development and Transformation of the Chinese Economy (in Chinese)* . China: CITIC Press.

International Monetary Institute of Renmin University China (2014) . *2014 Report of RMB Internationalization (in Chinese)* . China: Renmin University Press.

Ma Jun, Liu Linan (2013) . *The Pecking Order of Capital Account Liberalization and Cross-border RMB Flow (in Chinese)* .

UNCTAD (2014) . *World Investment Report 2014* .