

**RMB as Number One:
When will the Chinese RMB become a regional key currency?**

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For the AEPR conference, April 10, 2010
March 14, 2010 version**

1. Introduction

In 2010, China is becoming the second largest economy, overtaking Japan.¹ This has been expected to happen for some time, but the fact it is happening this year may be a turning point in many aspects, from economic power balance in Asia to global financial architecture. Moreover, if China, the United States, and Japan are to continue the current trend of growth rates, then China will overtake the United States by 2030. China becoming number one will have far reaching implications to the global governance and international finance. How China flexes its muscle as number one in Asia in 2010 may be a good indicator for how China will behave as number one in the world.

The global financial crisis of 2007-09 will have lasting effects on the world economic order.² Unlike the Asian currency crisis of 1997-98, the Asian economies fared the crisis relatively well. The epicenter of the crisis of 2007-09 was the United States, and its spillovers occurred mostly in Europe. The decline in Asian GDP in the crisis was mostly through the trade channel, and the Asian financial institutions and financial markets remain sound. China, Indonesia, and India managed to grow at positive rates in 2009, when most advanced economies and other emerging market economies experienced negative growth rates. Confidence grew in Asia, especially in China.

China has decided to “internationalize” the Renminbi (RMB). It has started a long process toward capital account liberalization. China has allowed the use of RMB for the border trade with its neighbors, such as Viet Nam, Lao, and Russia; it has introduced

¹ Comparison is made with market exchange rates. If the PPP exchange rate is used to convert Chinese GDP into the US dollars, China has been the largest economy for some years. However, the PPP exchange rate may be meaningful in thinking of standard of living, but not for the might of economic power in the international economy and politics, since all market transactions are done in the market exchange rate.

² See Ito (2009) for how the crisis started as a subprime mortgage crisis and developed into a major global crisis, and policy responses to the crisis.

RMB settlement of trade between Hong Kong and several Cities; and it has extended currency swap with countries such as Indonesia and Argentina. It seems that China is heading for gradual liberalization of capital accounts in view of RMB becoming a regional key currency.

In fact, there are some new evidences that RMB has become more influential to other Asian countries. Asian countries have become to co-move with RMB, when RMB was appreciating against the US dollar (USD) from July 2005 to the fall of 2008. Increasing the weight of RMB in the implicit basket of an Asian currency is rational, considering China has become number one trading partner, overtaking the US or Japan, in many Asian countries

Given the speed of China's economic growth, it is likely that China soon becomes a country that overwhelms the Asian region, and then becomes a strong challenger to the US in its global hegemony power including the key currency status. However, there are a few restraining factors for this scenario. First, the current course of the Chinese economic development may face political conflicts with the United States. Second, constraints on growth may occur from the shortage and high prices of oil, iron ore, and other commodities, labor, and environment.

2. GDP projection

Chinese economic growth since 1980 is phenomenal. Figure 1 shows the sizes of nominal GDP of the United State, Japan, and China converted into US dollar at the market exchange rate. Figure 1-1 shows the actual GDP of the three countries from 1978 to 2009. The level of China's GDP is slightly below Japan's GDP in 2009. However, given the past trend, China will surely surpass Japan in 2010. China will replace Japan as the largest economy in Asia and the number two economy in the world. This will not be the end of China's advance in the world economic order. Suppose that the US, Japan, and China, continue to grow from 2010 on at the respective average growth rate of 2000-2009. The average growth rates were 4.3% for the US, 1.8% for Japan, and 16.5% for China. Extrapolating these GDPs into the future with an assumption that these growth rates are maintained, China will overtake the United States in 2020. Figure 1-2 shows the projection up to 2021.

Insert Figure 1 about here

The GDP number here is nominal GDP that is converted at the market exchange rate. The nominal GDP consists of real GDP and GDP deflator. If inflation occurs the GDP deflator becomes higher and the size will be inflated. But, inflation will lead to depreciation of the market exchange rate of that currency, so that if the PPP holds (inflation rate=depreciation rate), then looking at GDP with converted to the US dollar at the market exchange rate is justified.

The growth rate of nominal GDP in China consists of the growth rates of real GDP, inflation rate of the GDP deflator, and the appreciation rates of the nominal exchange rate (RMB vis-à-vis the US dollar). In case (a) the inflation rate becomes higher without currency appreciation; or (b) currency appreciates without deflation, the nominal GDP will become larger. If (a) and/or (b), that is the real appreciation, is maintained in the medium run, the country may be experiencing the Balassa-Samuelson effect. The real GDP growth rate tends to be higher among emerging economies, like Japan in the 1950s and 1960s and China now. The real GDP growth rate can be decomposed into per-capita income growth and population growth. The emerging economies—medium -income economies with high economic growth—tend to experience high economic growth rates for a few decades followed by slow down of economic growth as the per-capita income level approaches the OECD average. Japan experienced the trend growth rate from around 10% in the 1950s and 1960s to 4-5% in the 1970s and 1980s. This is a normal process of economic convergence.

If China will continue to be a vibrant emerging economy in the coming decade, then RMB may be allowed to appreciate without having much impact on export industries and growth potential, then the GDP in US dollar will grow faster than now. If China will slow down due to convergence, then growth in GDP in the US dollar will also slow down.

Suppose that China's GDP growth slows down due to either convergence, labor shortage, or resource constraints. Suppose that the growth rate of GDP in US dollar will slow down to 10 percent from 16% of the 2000s, then it will delay the timing of China becoming number one by ten years. China will overtake the United States in 2030.

So, sooner or later, China as Number One will be realized. This may cause a seismic

shift in international financial order. If China succeeds in making RMB internationalized—no capital controls on inflows and outflows of capital and money—then, RMB may become a key currency in the world, not to mention in Asia. If China successfully negotiates to make IMF quota proportional to the GDP size, then China will become the number one quota country, where the IMF headquarter should reside according to the Articles of Agreement. By 2030, it is likely that the IMF headquarter will move to Shanghai or Beijing.

3. Global Financial Crisis gave Asia—esp. China and India—a confidence

The Asian currency crisis humbled many Asian countries. Asian countries, except for China, experienced negative growth in 1997. The real GDP shrank by 13 percent in Indonesia. One of the lessons was the importance of the foreign reserves, relative to short-term external liabilities. When capital flows reverse its direction from inflows to outflows, the exchange rate depreciates sharply. The decline in the exchange rate often invites speculation and capital flight. After the crisis subsided in 1999, Asian countries started to rebuild the lost foreign reserves. Even after Asian countries rebuilt the amount of foreign reserves to the pre-crisis level, they continue to build up foreign reserves. Current account surpluses and capital inflows made it easy for them to build up foreign reserves. Another lesson that Asian countries learned from the crisis of 1997-98 was the importance of robust financial institutions and system. The exchange rate depreciation and nonperforming loans made many Asian banks insolvent during the crisis. The so-called double mismatch—relying on short-term, dollar funding and lending long-term, in local currency—on their balance sheet was the source of vulnerability. Capital was thin too. Asian countries that were affected by the crisis were forced to restructure the banking system. Nonperforming loans were shifted to asset management companies and loss in capital were made up by government capital injection. Consolidation of many small banks into several large banks was one direction. Supervision and regulation were also strengthened.

Chinese banks did not suffer during the Asian crisis, since Chinese economy did not suffer much. However, after the crisis, China had made progress in strengthening their banks by dealing with nonperforming loans that had come from lending to state owned companies.

When the global financial crisis erupted in the United States in 2007-08, the Asian

countries had robust financial institutions and large amounts of foreign reserves. While the subprime crisis got worse from the summer of 2007 to the summer of 2008, Asia was little affected. Asian financial institutions were not exposed in any scale to subprime-related securities, and foreign reserves were ample.

The global financial crisis in 2007-09 had impacts on Asian economies mainly through the trade channel. Countries dependent on exports suffer sharper declines in GDP in the fourth quarter of 2008 and the first half of 2009. East Asian countries that exported autos, electronics, and other semi-durable goods to the US suffer most.

The quarterly real GDP growth rate is shown in Figure 2. This clearly shows that the turning point was the third quarter of 2008. The Lehman shock triggered the decline in consumption and investment in the US and this led to a sharp curtailing of imports. This hit the East Asian exporters most.

Insert GDP → Figure 2 about here

Three countries, China, Indonesia, and India, escaped a negative GDP growth rate in the first quarter of 2009. These countries have large domestic economies and in case of China, a large amount of fiscal stimulus was injected to the economy. Large economies turned out to be an advantage in the global financial crisis.

Figure 3 shows the change in gross exports for East Asian countries. The timing of declines is the same for GDP and exports.

Insert Exports → Figure 3 about here

Next, we explore the financial channel. There are several possible sub-channels under the umbrella of financial channel. In the global financial crisis, the US investment banks and hedge funds sold their assets in emerging markets to obtain liquid. Stock price, bond prices, and other financial products in East Asia declined, due to sales by foreigners in 2007-2009, especially in months following the Lehman Brothers failure in September 2008. Investors converted the sales proceeds to the US dollar, and that caused the appreciation of the dollar vis-à-vis East Asian currencies. The appreciation of the US dollar against almost all advanced countries (except Japan) and emerging market economies after the Lehman failure was paradoxical, since the US was the epicenter of

the crisis.

Figure 4 illustrates the movement of the exchange rate. From 2005 to 2007, many emerging market currencies, including Chinese yuan, had appreciated. One currency that had depreciated from 2005 to 2007 was the Japanese yen. The depreciation is often attributed to carry trade—investors borrowed the yen and invested in the high-coupon rate currencies, high-yielding mortgage backed securities, and commodities. The tide started to change in the spring of 2008. Many emerging market currencies, including the Korean won, the Indonesian rupiah, and the Indian Rupee started to depreciate.

Insert the exchange rate → Figure 4 about here

In the wake of the failure of Lehman Brothers, all of the Asian exchange rate of emerging market economies depreciated sharply. The Chinese yuan stopped the crawling peg appreciation in the summer of 2008, and resumed the peg to the US dollar. The Japanese yen appreciated sharply, as yen carry trades were re-wound. Hedge funds and other borrowers paid back the yen as they shrank their balance sheets.

From Figure 4, we observe that when the Chinese yuan was gradually appreciating from July 2005 to August 2008, so were several Asian currencies. In order to see how closely they move together, the correlation matrix of the Asian currencies. Table 1 shows the correlation matrix of the Asian currencies from July 20, 2005 to August 22, 2008—the period when China carried out appreciation against the US dollar.

Exchange rate correlation → Table 1

Particularly high correlations (0.85 or above) were observed between two currencies in the following group of currencies: Chinese Yuan, Singaporean Dollar, Thai Baht, Malaysian Ringgit, Philippine Peso. During the period that there is no crisis, and Chinese currencies are flexible vis-à-vis the US dollar, Chinese Yuan seems to have followers among the Southeast Asian currencies, except Indonesia Rupiah. This may be a natural consequence of the Southeast Asian countries' efforts to keep their effective exchange rate stable and of China being their number one trading partner.

One of the major causes of the Asian currency crisis of 1997-98 was de facto depletion of foreign reserves and its adverse consequences on the economy. Asian countries have

learned the lesson, so that they have accumulated the foreign reserves as they recovered from the crisis. The foreign reserves reached much higher level (in ratios to imports and short term external liabilities, as well as in absolute amounts) before the current crisis began. The movement of foreign reserves (with January of 2005 as a benchmark) are shown in Figure 5.

The forex reserve → Figure 5

They all increased foreign reserves between 2005 and 2008. Then some countries have experienced capital outflows that were partially met by decreasing foreign reserves in an attempt to moderate depreciation of the currencies. Korea, Thailand, and Malaysia seem to have suffered from drains in foreign reserves. This is an indication that even Asian countries suffered pressure to depreciate the currency during the global financial crisis of 2007-09.

When a country faces pressure of capital outflows that would depreciate the currency, its choice is to allow the exchange rate to depreciate, to intervene in the market to meet the outflow (thus, decreasing foreign reserves), or to use both. In the literature of financial crisis, the concept of exchange market pressure has been used. This is an weighted average of currency depreciation and the loss of foreign reserves. Figure 6 is the average of the month-to-month depreciation rate of the currency and the month-to-month rate of decrease in foreign reserves. The positive in this figure means that the currency is under depreciation (capital outflow) pressure.

Insert Exchange Market Pressure → Figure 6

From the figure, it is obvious that several Asian currencies were under severe exchange market pressure from August 2008 to November 2008, and also January and February of 2009. The severity varies, with Indonesia, Malaysia, Korea, India, and Thailand suffered the largest pressures, and others had mild ones. So in the current global financial crisis, Asian countries did have pressure, but all of them—with possible exception of Korea—withstood the pressure.

The fact that many banks failed in the US and Europe, but no bank failed in Asia due to the global financial crisis, gave confidence to Asian policy makers. This time, Asian preparation and prudence paid off. All the criticisms about what the Wall Street

organizations and people did gave further confidence, and almost like Schadenfreude, to Asian policy makers.

China has been often criticized for heavy capital controls, lack of liberalization in domestic financial system and products, and intervention to keep the RMB pegged, or crawling peg with slow appreciation speed. Asian policy makers also felt that they were vindicated on some of their actions during the Asian crisis of 1997-98, since crisis management measures adopted in the US and European countries like suspension of mark-to-market accounting, banning short-selling of bank shares, purchases by central banks many unconventional securities.

The fact that advanced, close-to-epicenter countries lowered the interest rate, provided liquidity, and applied fiscal stimulus, sounded counter to unpopular IMF conditionality during the Asian crisis.

Moreover, many European politicians and academics now agree to the views that hedge funds should be regulated, that pure betting on movements of prices or default probabilities may be counterproductive to economic efficiency. These views are reminiscent of Asian politicians and academics during the Asian crisis. The global financial crisis that started in the most liberalized financial markets has given second-thought on liberalization among policy makers of emerging markets.

4. Basket Currency Regressions

It was shown in Figure 4 and Table 1 that the Chinese RMB seems to have now followers among Southeast Asian currencies. When Chinese RMB appreciated vis-à-vis the US dollar, so were those Asian currencies.

An Asian currency can be officially or unofficially regarded as a basket currency. Several Asian monetary authorities have actively managed their currency values in light of changes in the value of the currencies of trading partners. In particular, the Monetary Authority of Singapore has always expressed their exchange rate policy as maintaining a basket currency arrangement.

When a currency movement can be explained as a weighted average of movements of other currencies, the weight can be inferred from a regression. The regression is

commonly known as the Frankel-Wei regression (See Frankel and Wei (1994)).

$$\Delta_{\%}A(t) = \beta_D \Delta_{\%}D(t) + \beta_E \Delta_{\%}E(t) + \beta_Y \Delta_{\%}Y(t) + \varepsilon(t)$$

Where A denotes an Asian currency's value in terms of Swiss franc (CHF/A); D denotes the US Dollar (CHF/USD); E euro (CHF/EUR); and Y yen (CHF/JPY). And the operator $\Delta_{\%}x = \Delta k(t)/x(t-1)$ and $\Delta k(t) = x(t) - x(t-1)$.

The Chinese RMB has been floated against the USD, then we can test whether CHY has any impact on movements of other Asian currencies, by adding CHY as the fourth variable on the right-hand-side.

$$\Delta_{\%}A(t) = \beta_D \Delta_{\%}D(t) + \beta_E \Delta_{\%}E(t) + \beta_Y \Delta_{\%}Y(t) + \beta_C \Delta_{\%}C(t) + \varepsilon(t)$$

When Chinese RMB was pegged to the US dollar, that is, before July 2005 or after August 2008, it is not possible to determine whether other Asian currencies are responding to the USD or RMB. Thus, we use only from July 4, 2005 to December 31, 2008.

Similar regressions both on theory and on applications have been carried out. (See Ito, Ogawa, and Sasaki (1998), Ogawa and Ito (2002), Ogawa and Sakane (2006)). Results are shown in Tables 2 and 3 (with restriction on coefficients that they have to add up to unity). Both tables show two sets of results for each East Asian currencies, one without CHY as an explanatory variable, one with CHY. Adding CHY as a right-hand-side variable is tricky, because the CHY itself was closely moves with USD. However, in this sample period, CHY

Insert Regression → Tables 2 and 3

What we have learned in this section can be summarized as follows. First, several Asian currencies can be regarded to be on a basket system. The basket currency regressions have a good fit. Second, the in the regression with US dollar, euro, and Japanese yen, the dollar weight seems to be very high among Asian currencies. Currencies with weights more than 90% include Chinese RMB (CHY), Indonesian Rupiah (IDR), Viet Nam Dong (VND); between 80% to 90% include Malaysian Ringgit (MLR), Philippine Peso (PHP) Thai baht (THB), Taiwan dollar (THB), and Indian Rupee (INR); between

70% and 80% include Korean won (KRW) and Singaporean dollar (SGD). The results do not change much whether the sum of coefficients are restricted or not restricted to be unity. Third, Australian and New Zealand currency movements cannot be regarded as a basket currency similar manner to East Asian currencies. Fourth, the Japanese yen (JPY) does not seem to be statistically significant at all. Fifth, when the Chinese RMB is added possible fourth major currencies to explain, the following currencies seem to have significant weight on Chinese RMB. Indonesia (IDR) and Malaysia (MLR) has about 45% on Chinese Yuan and reducing the weight on USD to the mid-40s, leaving very little weight on EUR and JPY. Singapore (SGD) put highest weight on CNY with 44%, while the USD has only 25% weight and EUR 29%. Currencies of Thailand, Taiwan, and India also had 30-40% weights on CHY. They are statistically significant.

The following policy implications are obvious. If and when the Chinese RMB re-started managed float vis-à-vis the US dollar, it is very likely that Malaysia, Indonesia, Singapore, Thailand, Taiwan, and India will tend to move with China. If CNY appreciates 1% against the USD, then the above-mentioned currencies will appreciate somewhere between 0.3 and 0.5%. In that sense, the exchange rate policy of China has much wider significance than just China. Still the experience in the July 2005-2008 Chinese exchange rate policy was 90% following the US dollar with only a very little deviations from US dollar. The real test of whether the exchange rate will play a role in reducing current account imbalance of the US vis-à-vis Asia rests on how much flexibility China will add to its currency.

5. Internationalization of RMB

What does it mean to internationalize the currency? It is usually summarized in terms of the role of the currency and in the field of private and public markets. The three roles of money are unit of account, medium of exchange, and store of value. In the international context, unit of account may be the invoice currency of trade, denomination of internationally traded bonds. Settlement means the usage of the currency to carry out trade contracts. Store of value can mean the use of financial products held by foreigners for the purpose of portfolio management or foreign reserves of the official sector. The role and function of an international currency can be summarized in the famous 3x3 matrix, as shown in Table 4.

Insert Table 4 about here

Since China has maintained rigid capital controls, internationalization of RMB is much behind the major international currencies: US dollar, Euro, Japanese yen, British Pound. However, as the Chinese economy expands, merits of having its currencies internationalized will overtake risks associated with it. Just like Japan internationalized its currency in a gradual manner from the mid 1970s to mid-1990s, China will liberalize various capital controls carefully. Many believe that China has already started this process.

6. G20-More Voice

On notable institutional creation out of chaos of the global financial crisis of 2007-2009 was G20 summit. After the Lehman Brothers collapsed in September 2008, global financial markets went into deep confusion. Many securities markets were frozen as buyers have disappeared. European governments as well as the United States had to de facto nationalize large, systemically-important financial institutions. In order to map out strategies for recovery, it seemed necessary to involve large emerging market economies, as they had become important pieces to rebalance growth. Even before the crisis, the global economic weight had shifted toward large emerging market economies, like China, Brazil, Russia, and India.

G20

One of the most prominent changes in the international architecture in response to the global financial crisis of 2007-2009 was the creation of the G20 Summit. It is now regarded as the steering committee of the world economy. The G20 as a group was first created as the Finance Ministers and Central Bank Governors' Meeting in 1999, in the aftermath of the Asian Crisis. In the midst of financial panic following the Lehman Brothers' failure, leaders of the major countries called for some framework to discuss important financial issues among the concerned countries—it should be at the leaders' level and the membership should be extended to large emerging market economies. The result was the existing membership of G20, but at the leaders' level, thus “the G20 Summit”. It was natural France and Germany, as well as Britain pushed for the creation of the Summit that would involve not only G7 but large emerging market economies. After some negotiations, the G7 countries agreed to create a new forum, instead of adding a few to G7.

When it was established, it was not clear whether this becomes a permanent institution.

After three meetings and two to be planned, the G20 Summit is now established institution. See Table 5-1 for history. It is often advertized as a grouping that has 85% of the world GDP.

In G7, Japan was only Asian country. In G20, China, Japan, Indonesia, Korea, and India are the participating countries. On the one hand, having five countries from Asia is a good beginning that Asian agenda can be pushed in the conference. On the other hand, the group of twenty countries may be too big to act timely. Voices as well as votes are important. The G20 Summit meeting will be hosted by Korea in the fall of 2010, first meeting in Asia since its inception in 2008. Whether G20 continues to be an important “steering committee” of the international financial issue is still unclear.

The G20 Summit has been effective in crisis management and building the new financial architecture since its inception. Several agreements in the direction of monetary and fiscal policy commitment were made. There was also an agreement on anti-protectionism. For example, coordinated fiscal stimulus and monetary stimulus in the face of decline in aggregate demand were encouraged in the Washington Summit, although quantitative target was not adopted. In addition to growth and employment, its recommendations also included reform agendas in the international financial architecture: (i) IMF quota adjustment; (ii) Resources (loans) made available for IMF; (iii) Tripling SDR allocations; and (iv) Transforming FSF into FSB, among others.

In order to see how G20 was composed in comparison with other groupings, Table 5-2 shows the correspondences between GDP share in the world economy and its ranking; IMF quota share; and memberships of G8, G20 G10 (=GAB) and NAB.

The membership of the original G20—that is, Finance Ministers and Central Bank Governors Meeting—was chosen basically in reflection of the ranking of GDP size, with some considerations to regional representation. In response to criticism of Asian countries for their low representation in the Fund at the time of the original G20 creation in 1999, European countries were deemphasized and countries in Asia and other regions were chosen. European countries, like Spain, the Netherlands, Poland, Sweden, Switzerland, and Belgium, were not chosen, but Korea, Indonesia, Turkey,

Saudi Arabia, Argentina, and South Africa were chosen.

Insert Table 5-1 and 5-2 about here

The contrast to the membership of G8 (since the 1980s) and G10 (est. 1962 for GAB) is clear. G20 has more Asian countries and more emerging market economies. In this sense, G20 is closer to a balanced representation than IMF quota or GAB. The list of NAB participating countries is broadly similar to the G20 list, with notable exception of emerging market economies: China, Russia, Brazil, India, and Mexico.

Because G20 acted in the crisis mode, the decision was quick. Also, the composition of membership—less weight on European countries—may have contributed to the fast decision.

Responses of China and Korea to G20

China seems to have recognized the importance of voicing concerns and disseminating ideas about how a new international financial architecture should be shaped. An example is the three speeches that Governor Zhou Xiaochuan of the People's Bank of China gave in late March 2009. They are entitled:

- Reform the International Monetary System (March 23, 2009)
- On Savings Ratio (March 24, 2009)
- Changing Pro-cyclicality for Financial and Economic Stability (March 26, 2009)

The timing was clearly chosen for the G20 meeting in London on April 1-2, 2009. Of the three speeches, the first one stirred debates in the international finance circle. In the “Changing Pro-cyclicality for Financial and Economic Stability,” Governor Zhou argued that the SDR should be used more extensively, as liquidity provision in case of crisis, and that SDR composition should be revised. He was not explicit, but it is not surprising if China asks to consider RMB to be included in the last session for the year.

7. RMB roadmap for the regional key currency

Process of internationalization

So far, the use of RMB is increasing for border trades with Myanmar, Mongolia, Lao,

and Russia. In some countries, not to mention Hong Kong and Macau, RMB has been used even within the border. On December 24, 2008, State Council decided to allow RMB settlements for trades between Guangdong Province (plus Pearl River Delta) and Hong Kong (plus Macau) and between Yunnan Province and ASEAN countries. In addition, RMB settlements with eight countries including Russia, Mongolia, Viet Nam, and Myanmar.

In February, 2005, China allowed issues of RMB bonds. ADB and IFC issued RMB-denominated bonds. At this time, issuers have to be an international organization, but this will be liberalized down the road.

Liquidity was the central problem of the global financial crisis. Even Korea had a strong pressure for liquidity (recall Figure 6) and it asked for direct swap line with Federal Reserve. Although China and Korea had a currency swap agreement of RMB180 billion/38 trillion RMB, it was not used by Korea.

China extended a bilateral swap with several countries: On January 20, 2009 with Hong Kong for RMB 200 billion; On February 8, with Malaysia for RMB 80 billion.

From February 2004, RMB deposits were allowed in Hong Kong. On June 8, 2007, banks were allowed to issue RMB-denominated bonds. Investors have to hold RMB-denominated accounts in Hong Kong. On December 8, 2008, the State Council confirmed that it encourages RMB businesses in Asia. Hong Kong is being constructed as an offshore financial center

8. Conclusion

China will become the second largest economy this year. Its currency has been promoted as a “risk-free” used in the global financial assets. Several East Asian currencies have followed the movements of RMB, when the RMB was flexible vis-à-vis the US dollar. The Chinese RMB is on its way to become an international currency. Deep domestic markets will help RMB to become internationally accepted.

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