



中国社会科学院世界经济与政治研究所  
Institute of World Economics and Politics, CASS

# ***Myths*** ***on Renminbi Internationalization***

Qiyuan XU

RIETI BBL Seminar ▪ Tokyo ▪ December 15, 2015

IWEP

## **Warming Up:**

### **Comments for two wide concerns**

- About SDR
- About RMB exchange rate

## About RMB's entrance into SDR basket

- Who is the biggest winner?
- Free usable is a critical condition?
- What SDR means to exchange rate reforms?
- How much/What China would like to pay for this?
  - Open capital account?
  - Exchange rate reforms?

## About reforms of RMB's exchange rate regime

- Disputes about sequencing
- Where RMB E.R. reforms arrived?
- What is the next step?
- Timing? (811?)
- Floating rule and the reference system?

## *Myths?*

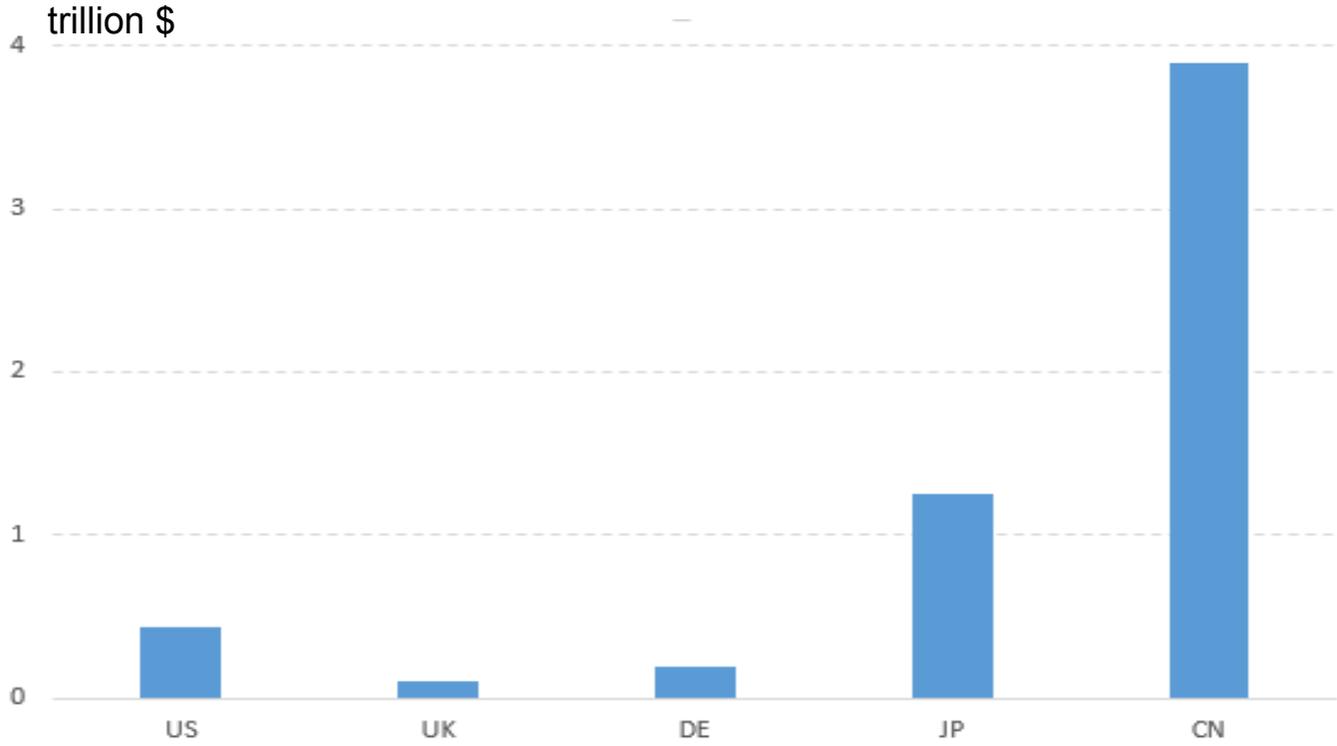
1. China is buying the world? (investment)
2. Largest export economy? (trade)
3. R.I. is just about financial reforms?
4. R.I. helps to avoid the exchange rate risk?
5. R.I. can reduce over-reliance on dollar assets?

## **Myth 1**

**China is buying the world ?**

# Myth 1: China is buying the world

Forex reserve:



# Myth 1: who is buying the world?

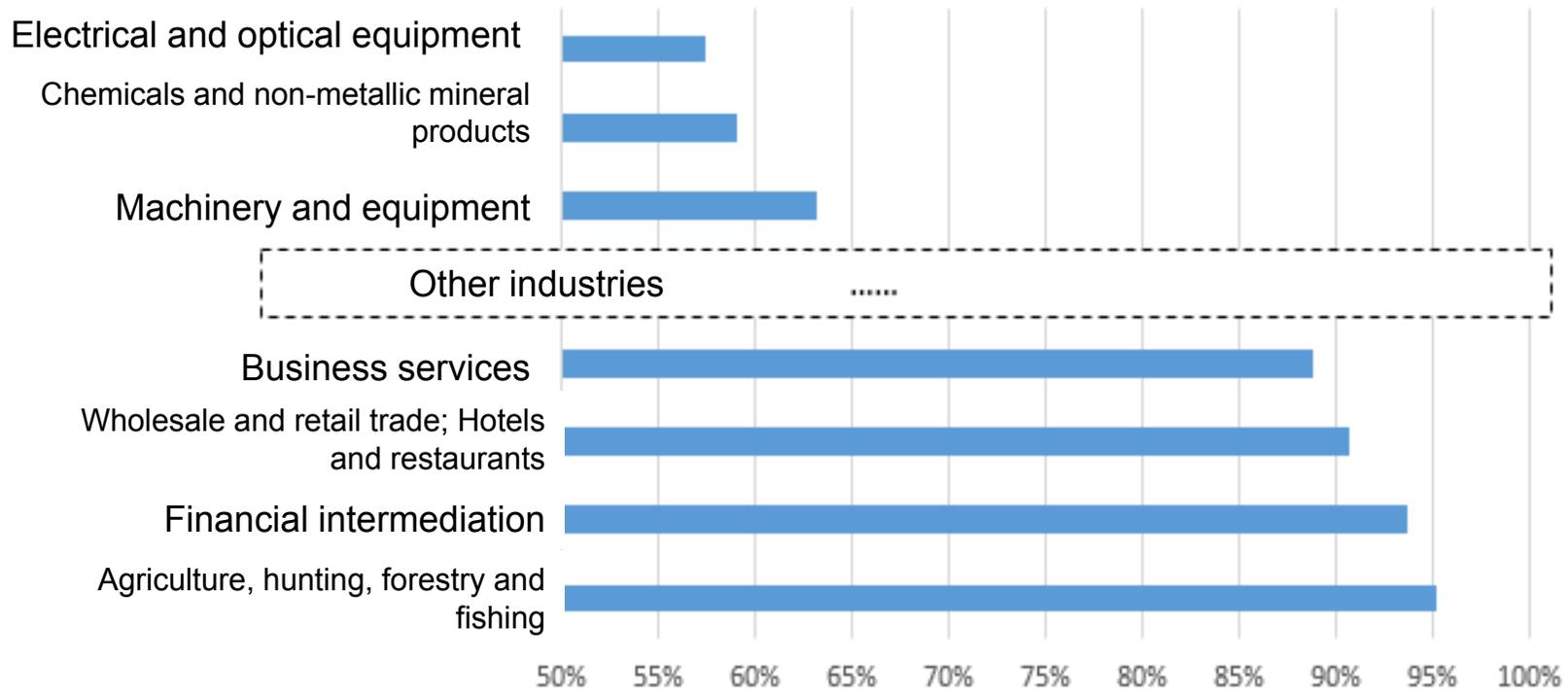
## Total foreign assets



## **Myth 2**

**China is the largest exporter ?**

### Value added ratio in exports: by industry

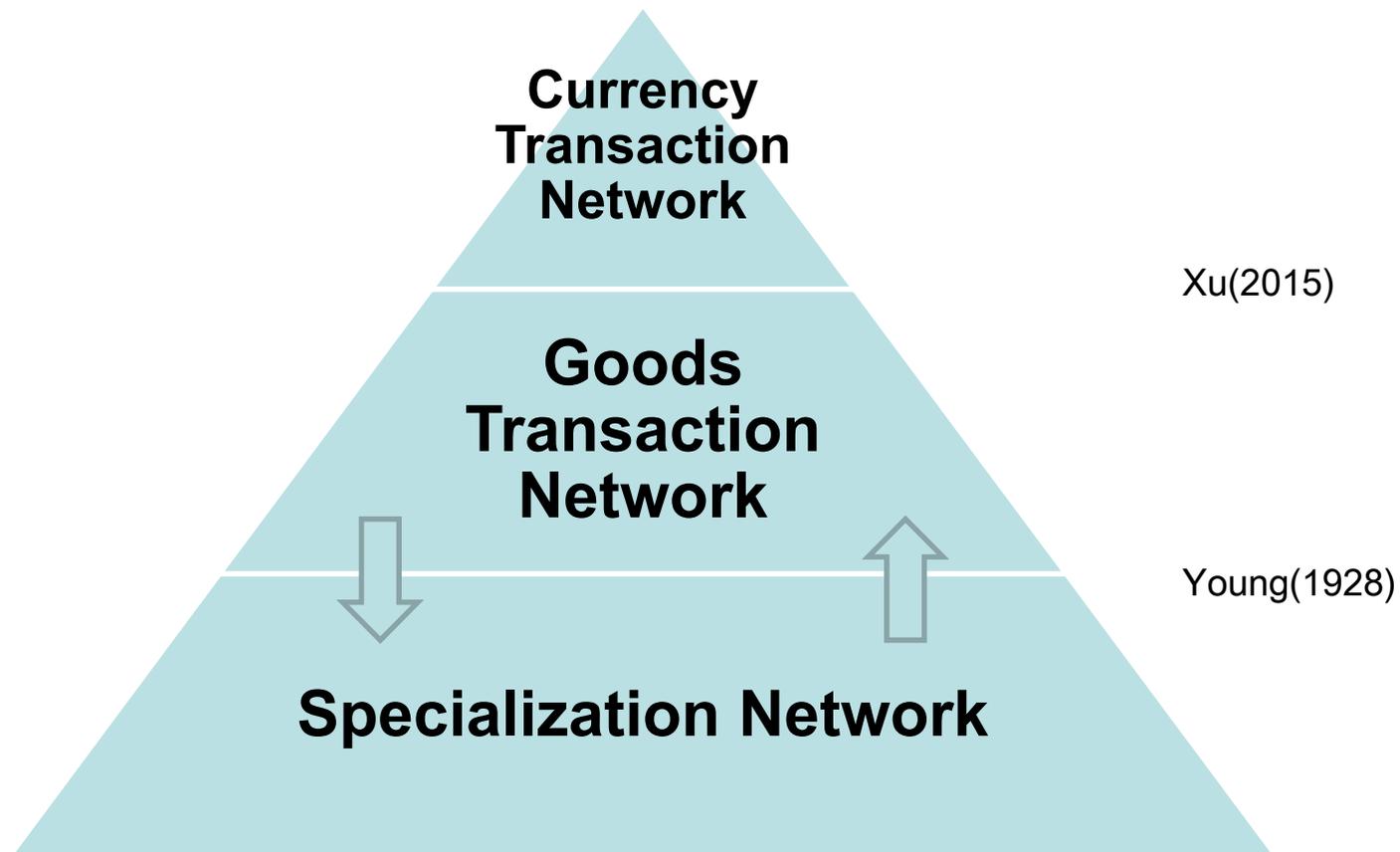


## Myth 3

R.I. is **just** about financial reforms ?

-

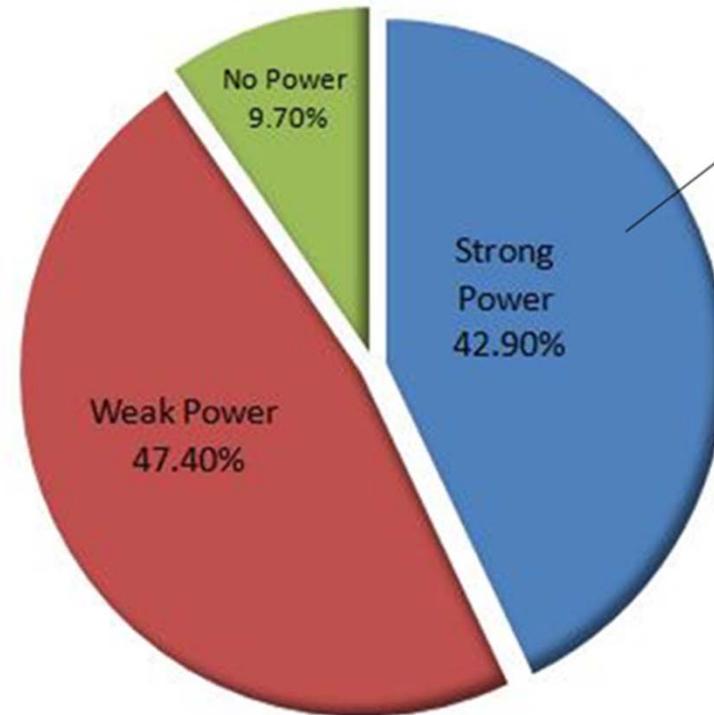
What is the micro-foundation in real sector?



Qiyuan Xu, 2015, Assessing the Potential of RMB Trade Settlement, in *Enter the Dragon*, edited by Domenico Lombardi and Hongying Wang, CIGI publishing house.

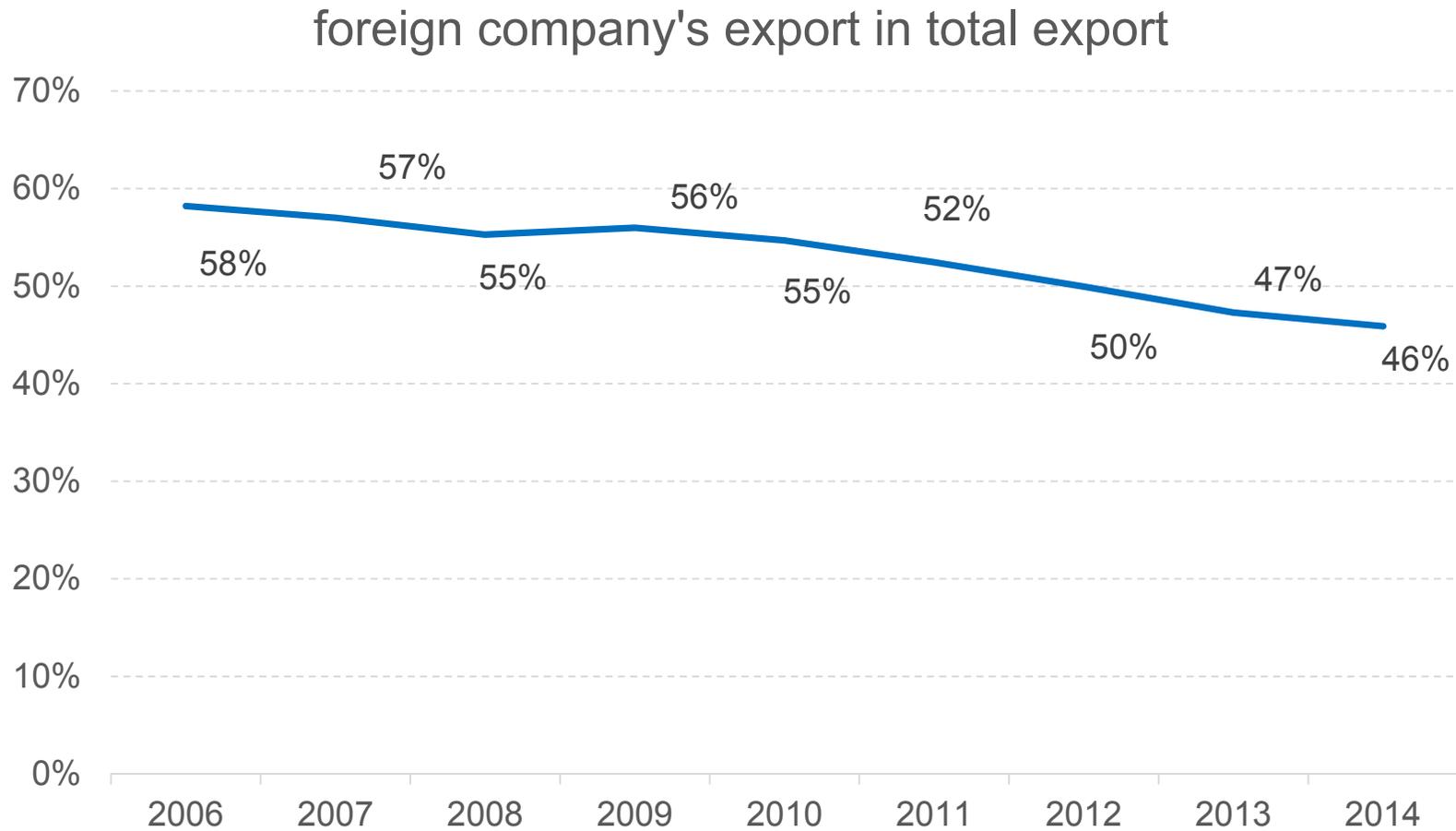
Allyn Young, 1928. Increasing Returns and Economic Progress. *The Economic Journal* 152: 527–42.

## Exporters: pricing power

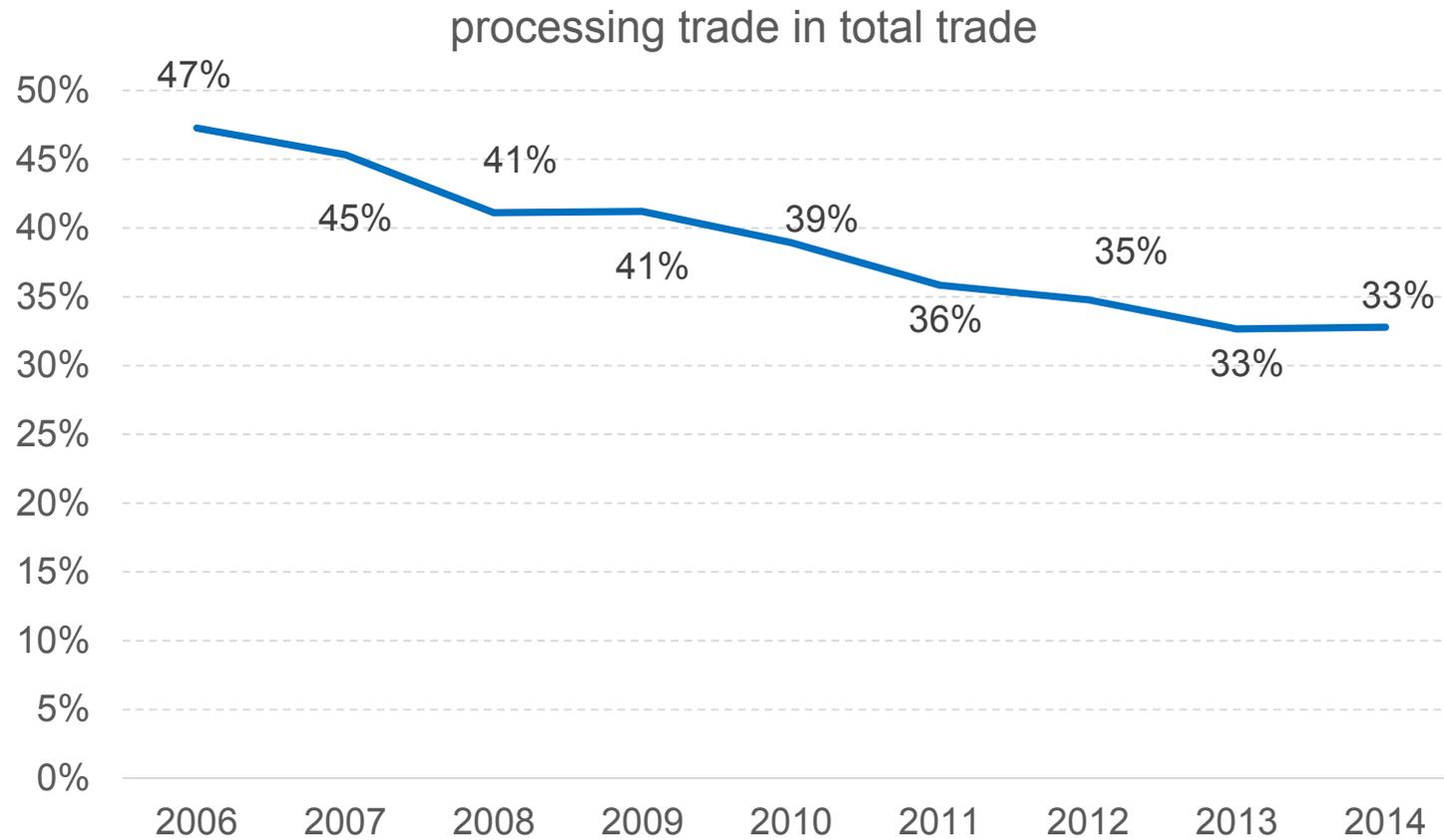


And some of them  
are Foreign Owned  
Enterprises.

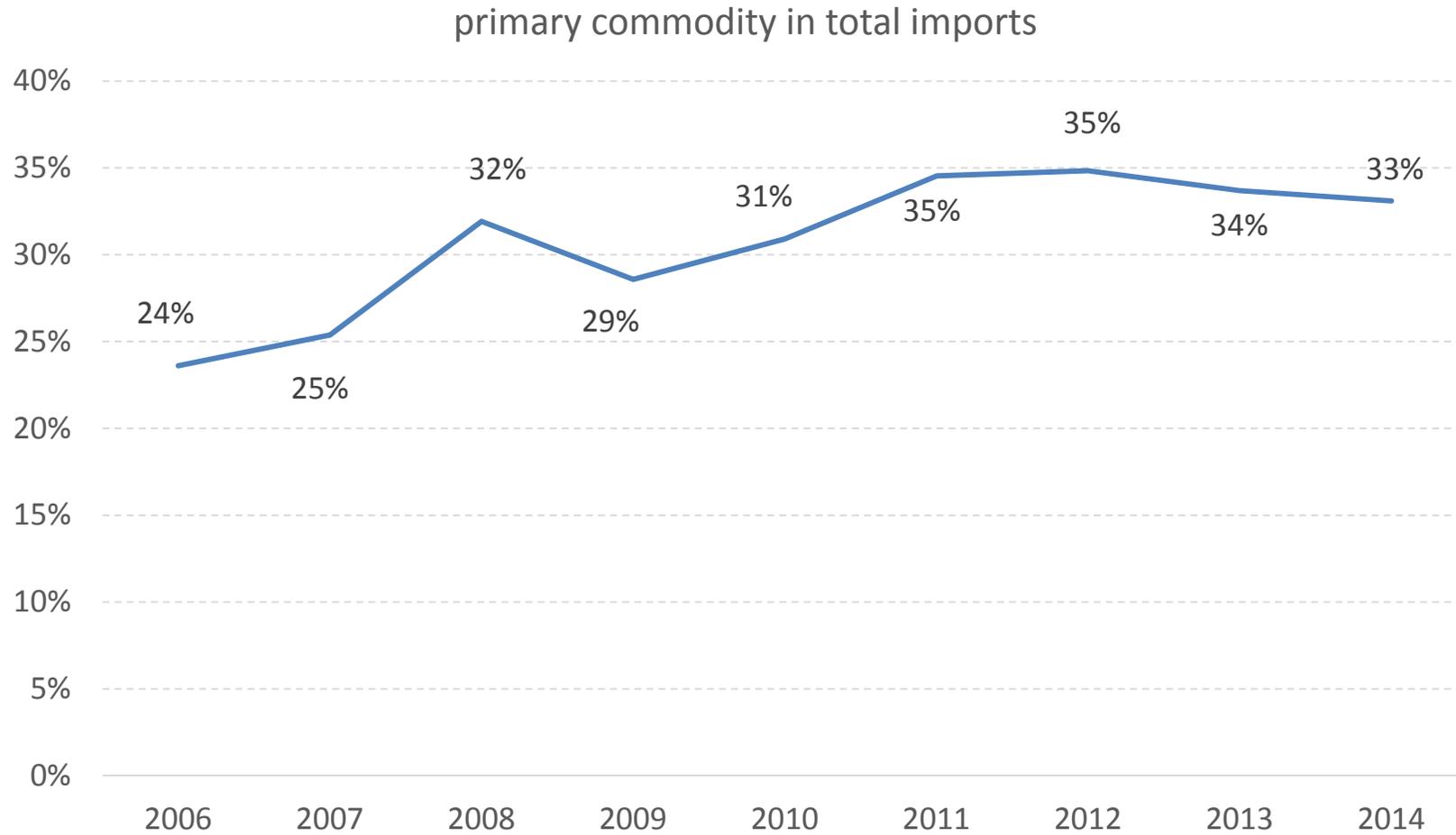
# Exporters: foreign company



# Trade: processing trade



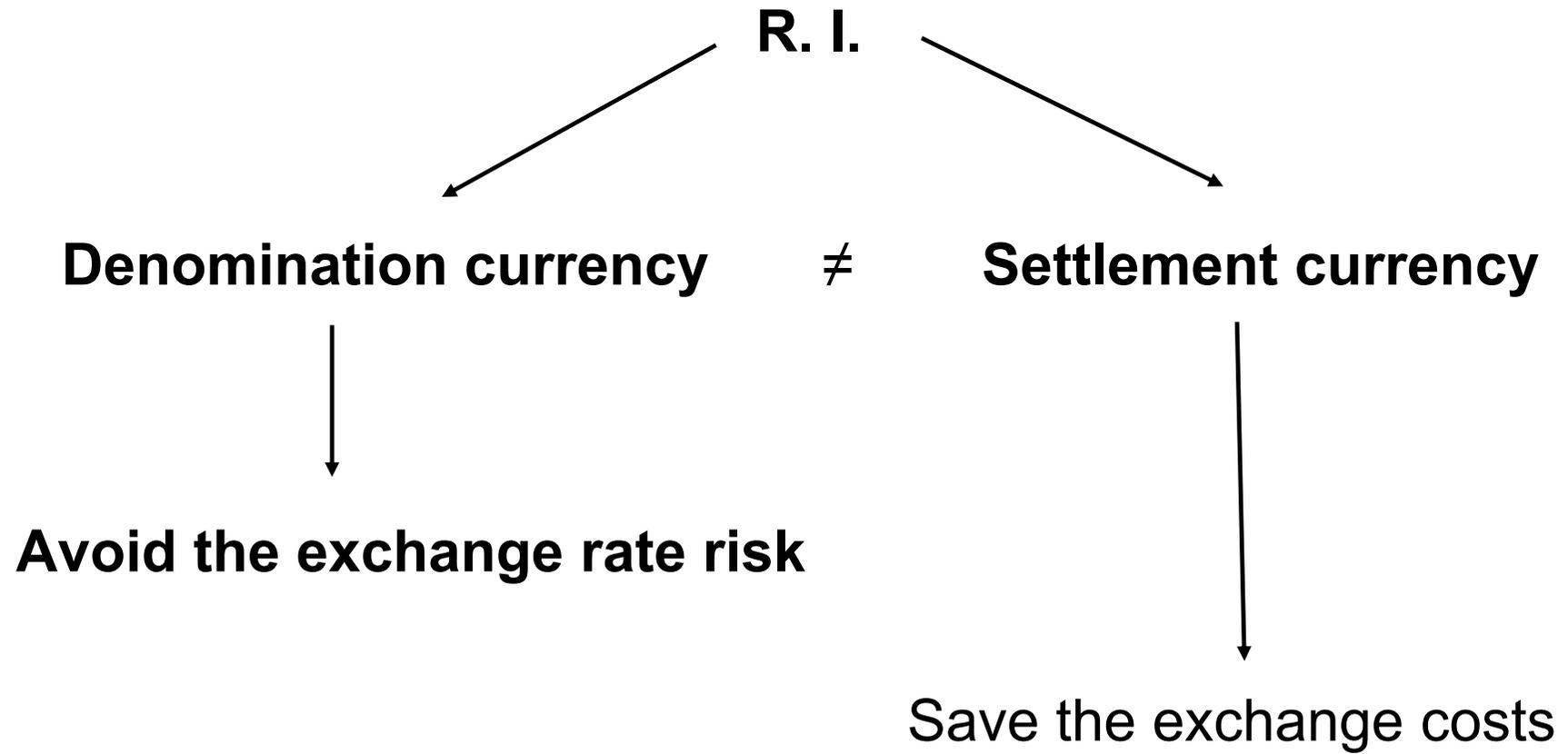
# Trade: primary commodity



## **Myth 4**

**Avoid the exchange rate risk ?**

# Myth 4 Avoid the exchange rate risk

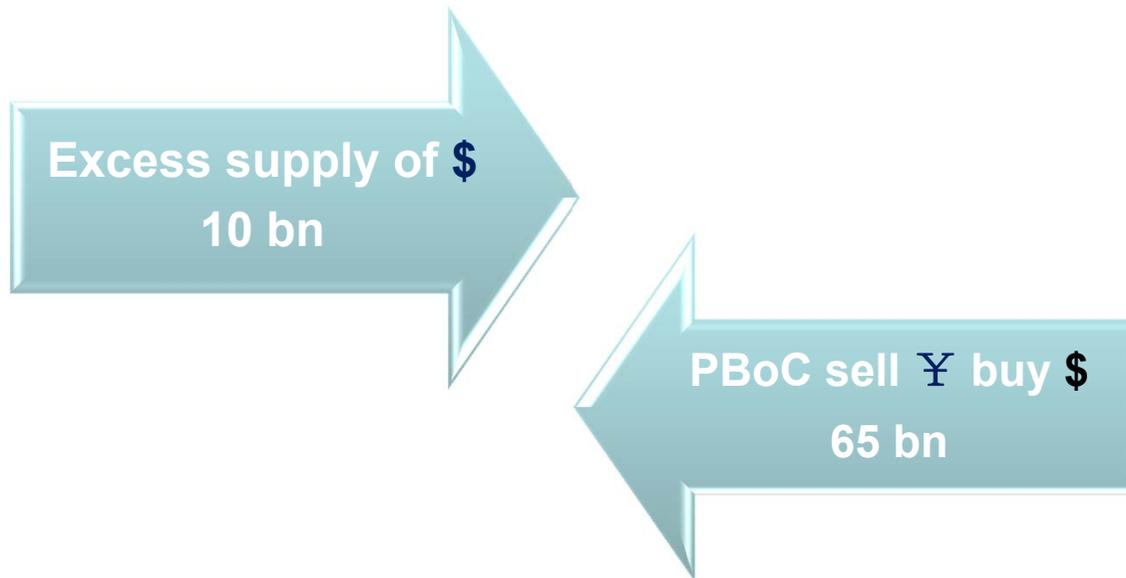


## **Myth 5**

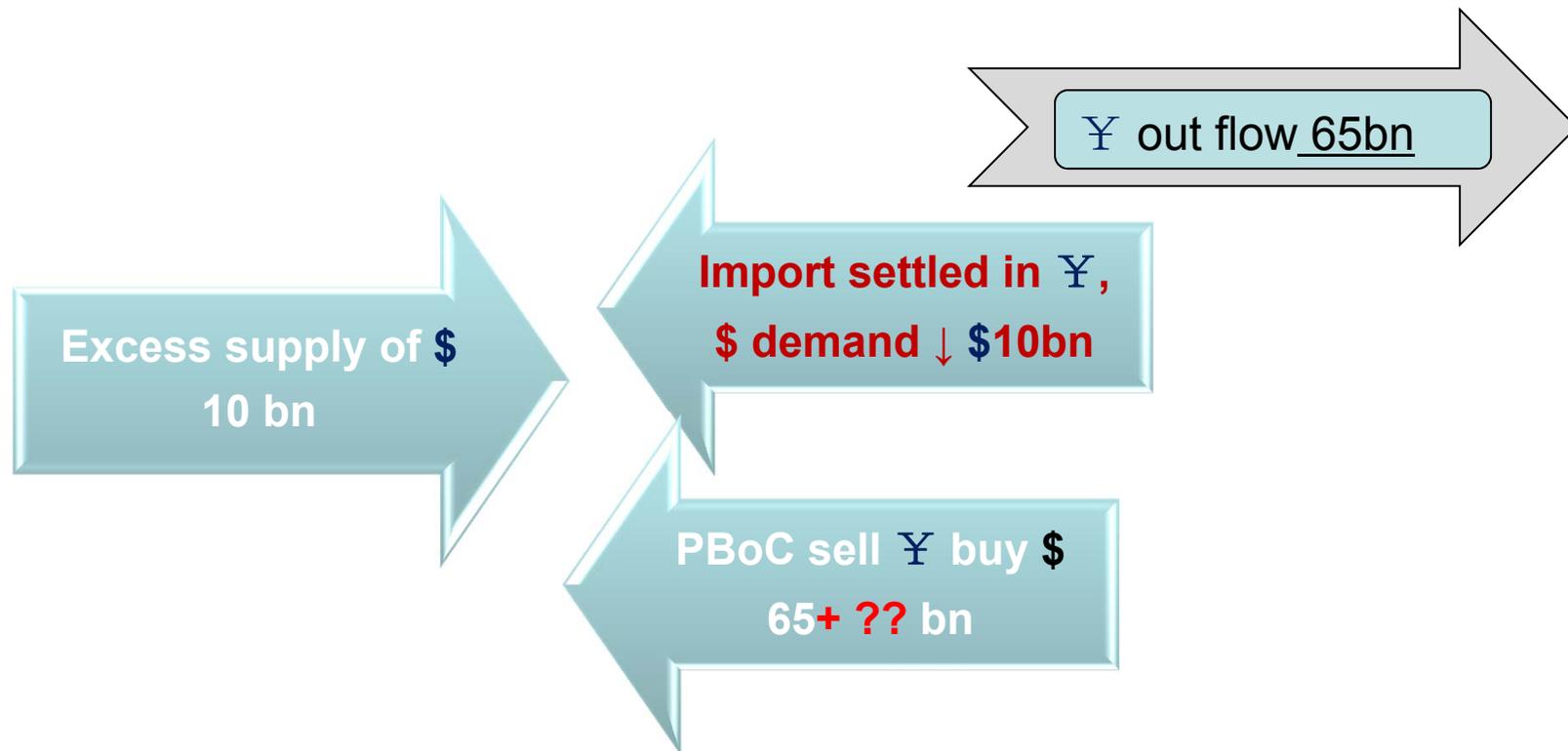
**reduce over-reliance on dollar-denominated assets**

**?**

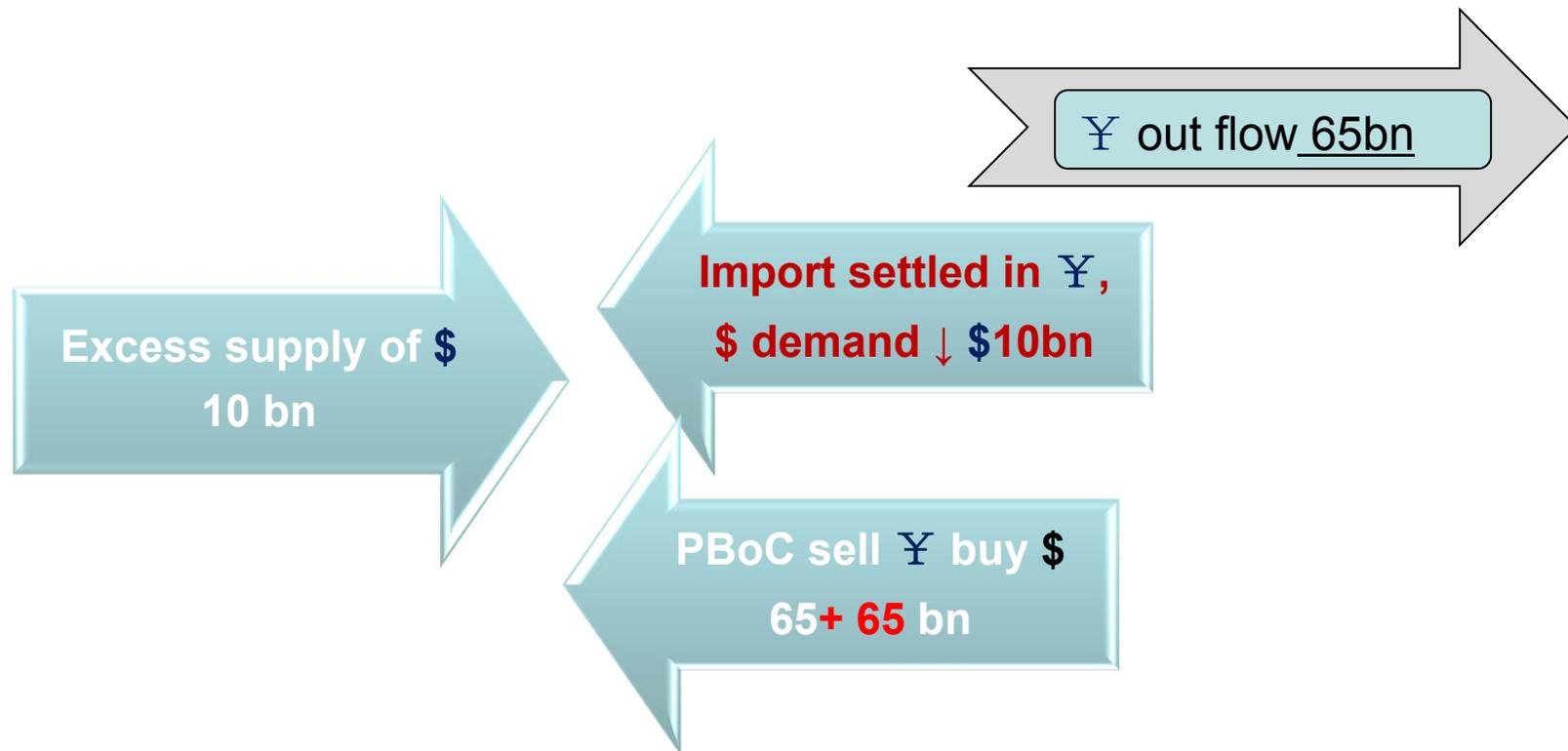
## Benchmark case



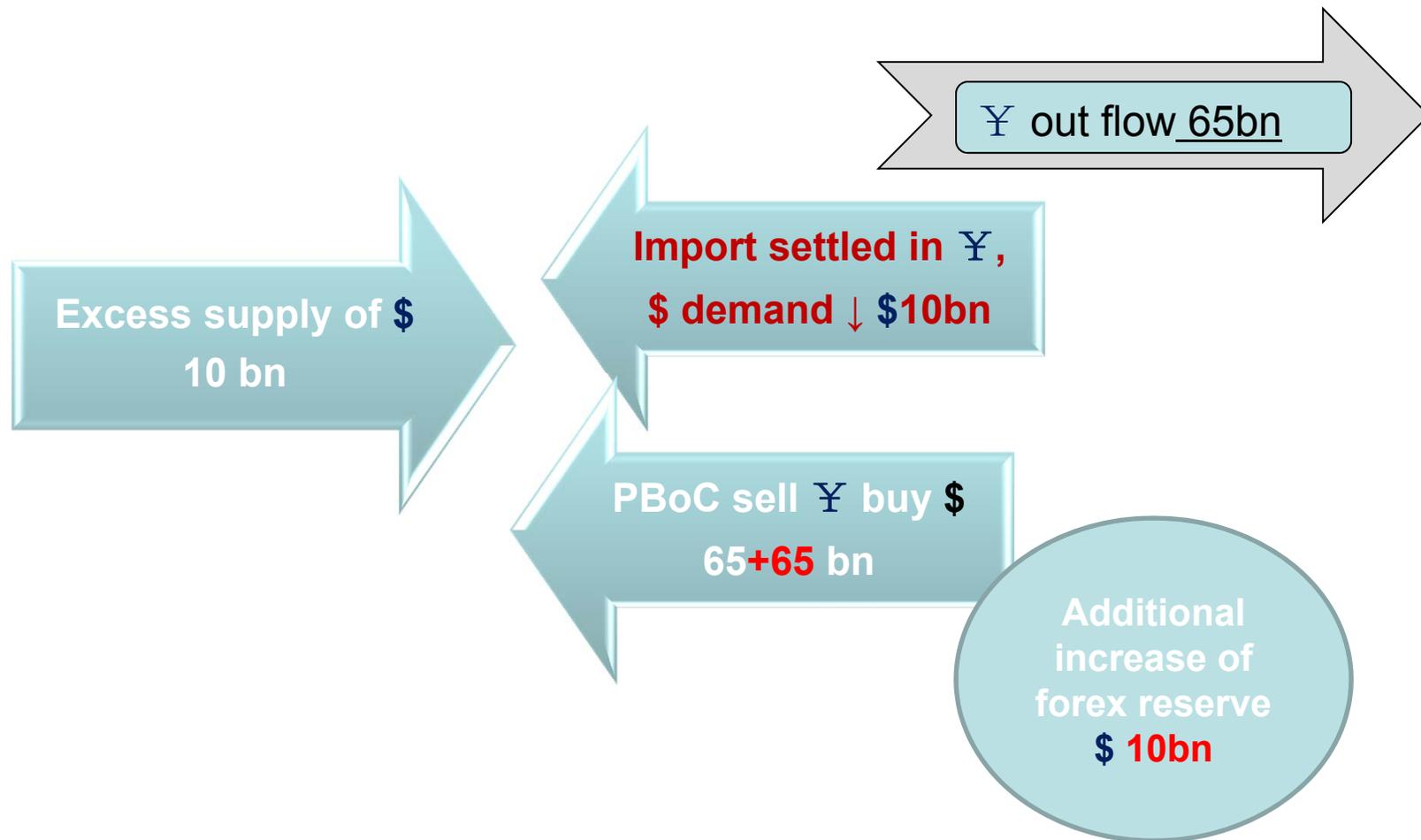
## Comparison case



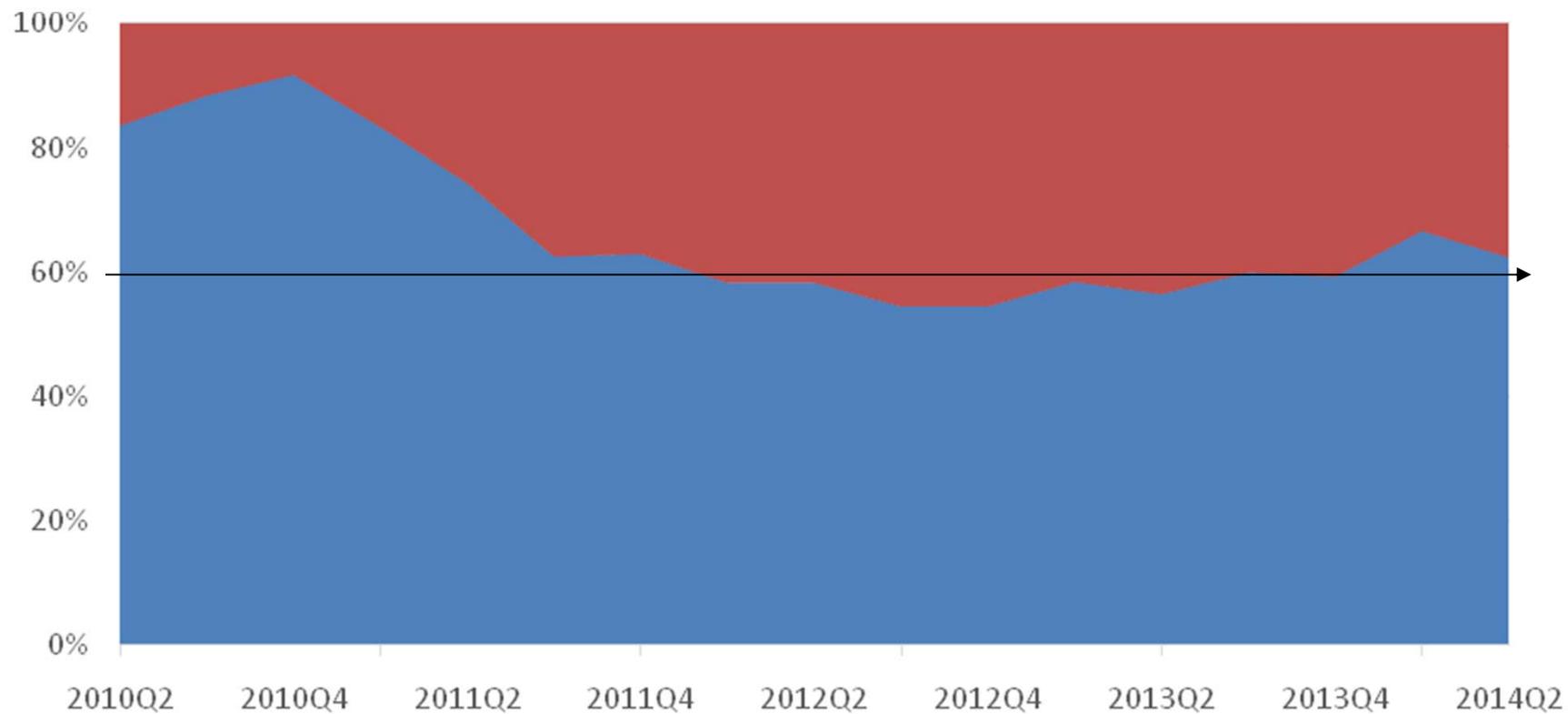
## Comparison case



# Comparison case



### Ratio of RMB Receipts and Payments in Total RMB Settlements



- the ratio of RMB payment in the total RMB settlements
- the ratio of RMB receipt in the total RMB settlements

# The impacts of R.I. on China's economy

	RMB outflows		RMB backflows	
	Imports RODI RQDII at beginning	RQDII with marked increase	Exports RFDI RQFII at beginning	RQFII with great progress: Issuing dimsum bonds and then capital backflows; Lending from offshore to onshore market
Interest rate and asset price	Interest rate moderate changes↑	Money supply↓ Equilibrium interest rate↑ Asset prices ↓ Money demand ↓	→	Money supply ↑ Equilibrium interest rate ↓ Asset prices ↑ Speculation motivation ↑
Forex reserves	A bigger increase	→	A less increase	→
Sequence	2	3	1	3

Reference: Qiyuan Xu and Fan He, 2016, Influence of RMB Cross-border Settlement on the Chinese Economy, *China & World Economy*, forthcoming.



中国社会科学院世界经济与政治研究所  
Institute of World Economics and Politics, CASS

Thank you!

[xuqy@cass.org.cn](mailto:xuqy@cass.org.cn)

IWEP