Renminbi internationalisation: global vs national drivers

Presentation at the Society for the Study of Emerging Markets panel “Can the Chinese Renminbi Rule?: If So, How and When?”

San Francisco, 4 January 2016

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* Views expressed are those of the author and not necessarily the views of the BIS
National or global drivers of currency internationalisation?
## National vs global drivers of US dollar’s international role

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<td>US bond market size &amp; liquidity</td>
<td>Global dollar bond market size &amp; liquidity</td>
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Dollar zone is twice the size of the US economy

Source: McCauley & Chan (2014)
Dollar invoiced global trade is four times US trade

Source: Ito & Chinn (2015)
Dollar credit to borrowers outside of US mostly extended outside the US ($ trillions at end 2013)

# National vs global drivers of renminbi’s international role

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**Questions re RMB Internationalisation!**
A renminbi zone? 
...would make a difference to portfolio managers, both official and private
Dollar zone weight drives $ share of forex reserves

$y = 25 + 0.5x$
$R^2 = 0.666$


AU = Australia; BG = Bulgaria; BR = Brazil; CA = Canada; CH = Switzerland; CL = Chile; CO = Colombia; CZ = Czech Republic; GB = United Kingdom; HK = Hong Kong SAR; HR = Croatia; IN = India; IS = Iceland; KR = Korea; LT = Lithuania; NO = Norway; NZ = New Zealand; PE = Peru; PH = Philippines; PL = Poland; RO = Romania; RU = Russia; SE = Sweden; TR = Turkey; UY = Uruguay.

1 Average over four years. 2 For AU, June 2013; CO, March 2011; IN, 2014; NZ, September 2010; TR, 2012.
$ zone weight drives $ share of private portfolios: bank deposits, bank loans, international bonds

Source: McCauley & Chan (2014)
Renminbi zone?
Studies find various effects of RMB on East Asian currencies

- Very limited:
  - Balsubramanian, Patnaik & Shah (2011);
  - Chow (2011).

- Discernible, but modest effect:
  - Ho, Ma & McCauley (2005): CNY non-deliverable forwards;
  - Shu, Chow and Chan (2007);
  - Chen, Peng and Shu (2009);
  - Fratzscher and Mehl (2011);
  - Fang, Huang & Niu (2012);
  - Chen, Siregar and Yiu (2013);
  - Huang et al (2014);
  - Shu, He & Cheng (2015);

- RMB bloc is here:
  - Subramanian & Kessler (2012);
  - Chinn (2014).

Source: Gao and Wang (2016) of CASS and author.
Depreciation vs dollar, 10/8/15 – 13/8/15
In percent

Source: Bloomberg.
Effects of RMB management against effective exchange rate basket
Renminbi nominal and real effective exchange rates
Index, June 2005 = 100

NEER
REER
RMB has substantial weight in trade-weighted baskets of emerging markets
Distinguish: RMB basket vs idiosyncratic moves

- Basket management of RMB & dollar zone:
  - If neighbours stabilise their currencies against their own baskets, then RMB basket management would lead neighbouring currencies to trade with lower weight on dollar.
  - This might imply shrinkage of dollar zone.

- Idiosyncratic moves of RMB
  - Necessary condition for RMB zone
  - In which neighbouring currencies share idiosyncratic moves of RMB vs dollar and euro.
Conclusion: RMB internationalisation depends on global, not just national factors

- Response of other currencies to idiosyncratic renminbi moves.
- Invoicing of trade, especially in third country trade.
- Denomination of debt contracts.
- Need break free from national perspective on international finance (Avdjiev et al (2015)).