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39. Internationalization of Chinese currency

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Introduction: China is the largest trading nation but the majority of it is carried out in US dollars. Currently the RMB is not even the top 3 most popular international currencies.

Resources and methods: Analysis, abstract logical (theoretical synthesis and report writing) were used in this work.

Results: A national currency may, in general, be regarded as “internationalized” if it plays a role of money outside the country where it is issued.

Internationally accepted currency as a medium of exchange (of payment) has been at the core of international trade, and in the past countries had gone to war for this matter. The unchallenged status of the US dollar as the main international currency during several decades has given the US a great advantage in managing its own economy as well as international trade and cross border relations.

Although China’s flourishing economy increases the need for the RMB or Yuan, the official currency of China, to be accepted internationally at present the RMB is not a major internationally choice of currency of trade currently. The most popular international currency is the US dollars followed by Euros and Japanese Yen. Over the last 60 years US dollar had been dominant. In Asia almost 80% of international trades are carried out using the US dollars and the figure is 25% for Europe. China too carried out huge amounts of

trade in US dollars. If these trades alone are being carried out in the RMB, China would be able to dominate the international currency usage.

After the financial crisis of 2008, China had begun a campaign to promote the role of its national money, the Yuan or Renminbi (RMB), as an international currency. China began to encourage the use of its currency in international trade, swap arrangements between central banks, and bank deposits and bond issuances in Hong Kong .

China has incrementally moved in the direction of currency internationalization for several years and has even begun to allow for the Yuan to be used in the settlement of cross-border trade with Thailand, Burma, Cambodia, Pakistan, North Korea, Mongolia, Russia, Nepal and Vietnam.

During the first six months of 2011, trade transactions settled in Yuan totaled approximately \$146 billion, a 13-fold increase over the same period during the previous year. By mid-2011, Yuan deposits in Hong Kong equaled \$85 billion, a roughly tenfold jump since Hu's 2008 statement. The Yuan is already accepted as a form of payment in Mongolia, Pakistan, Thailand, and Vietnam. Chinese authorities have indicated that as soon as 2015, they want the Yuan to be included in the basket of major currencies that determines the value of Special Drawing Rights (SDRs), the reserve asset issued by the International Monetary Fund.

In the past, many of China's trade with foreign countries were carried out using the US dollar meaning if China were to import raw materials from Brazil, the payment is made after converting China currency, the RMB, into US Dollars. This additional transaction costs as compared to if both Brazil and China were to agree to accept payments in RMB.

The acceptance of the Chinese RMB by international partners gives China the greater ability to finance payments deficits with RMB. This makes it easier for government policy makers to pursue public spending objectives. For example, an undervalued Yuan will result in large subsidies for Chinese exporters as well as foreign companies investing in China.

Finally, at the symbolic level, widespread international use of a currency can promote the issuer's overall reputation in world affairs.

Conclusions: The benefit and cost for China for making RMB an international currency must be weighed by the Chinese authorities. As the size of the economy and financial market increases and the monetary policy framework including exchange rate flexibility becomes more firmly established, the benefits should increasingly surpass the costs.

References

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