

Some Implications of RMB Internationalization

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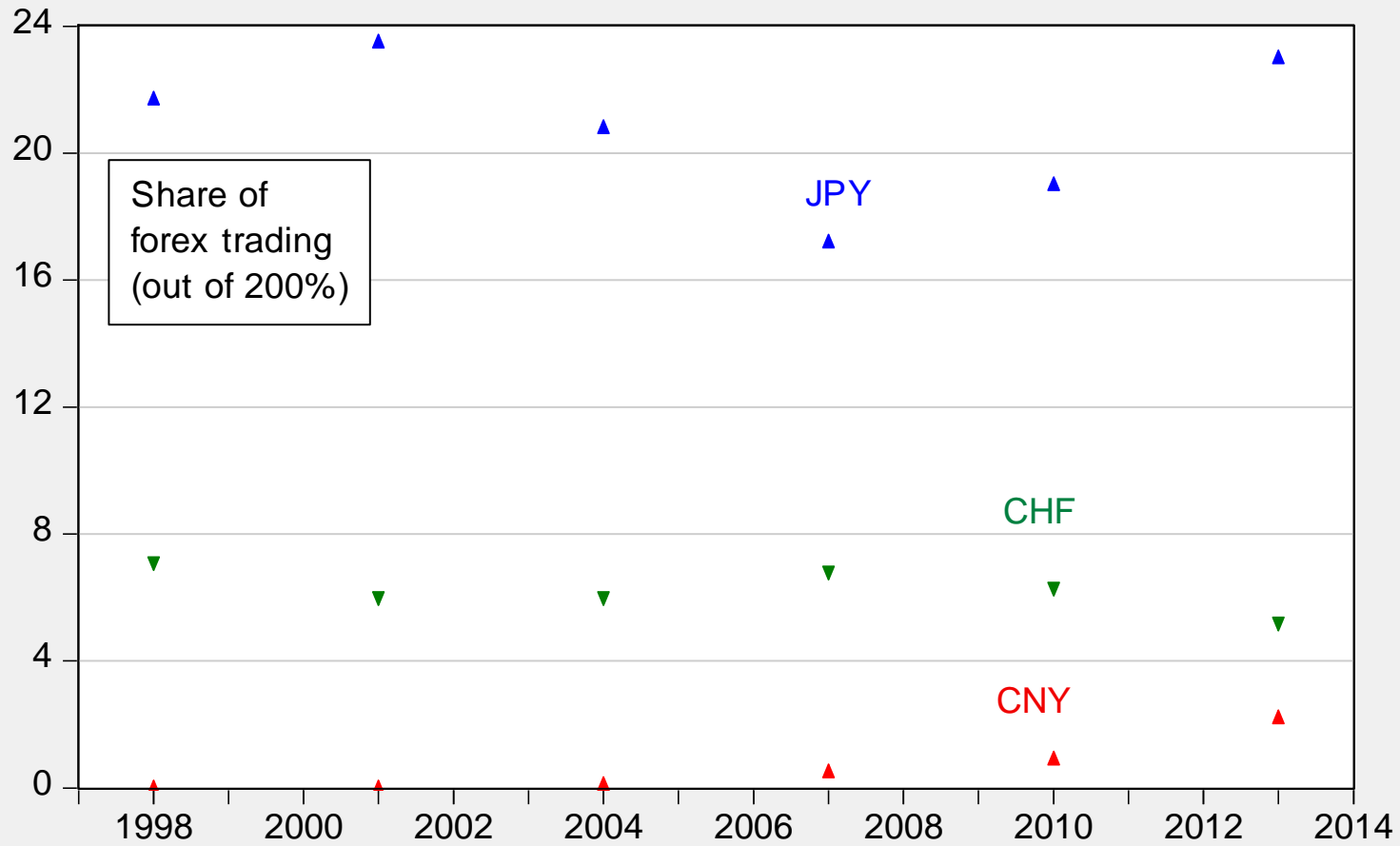
University of Wisconsin and NBER

Columbia-Tsinghua Conference

“Capital Flows and the International Financial System,”

Beijing, June 23-25

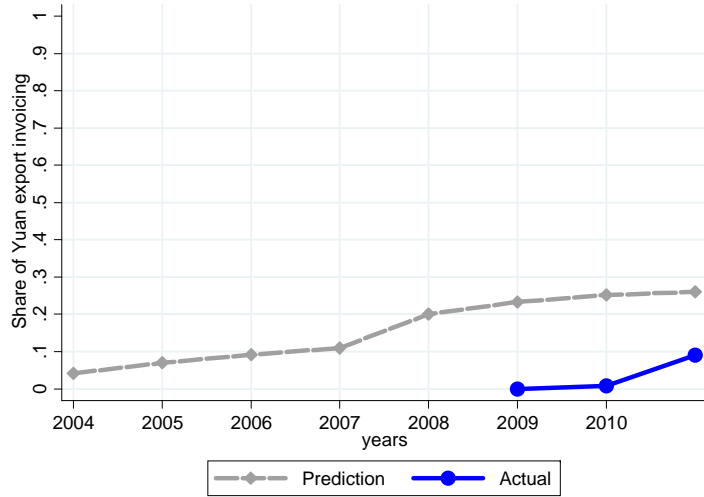
The RMB in Forex Trading



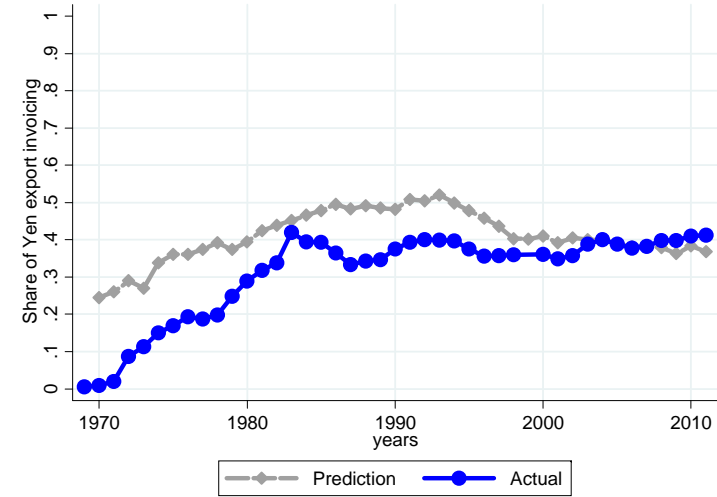
Source: BIS Triennial Survey (2013)

The RMB in Invoicing

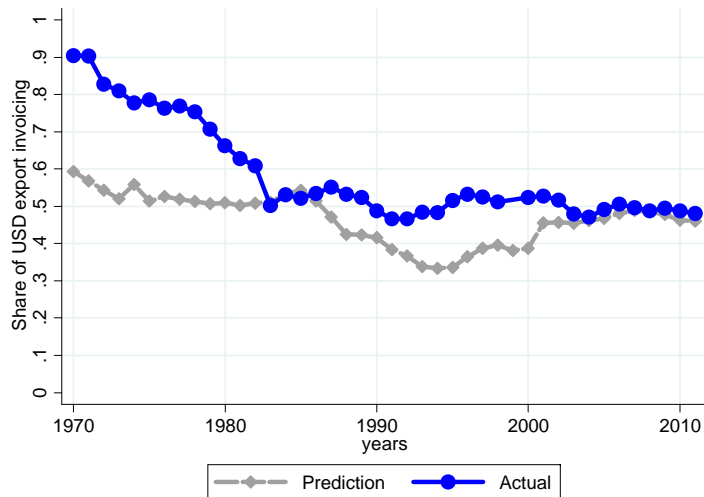
(a) RMB in Chinese Exports



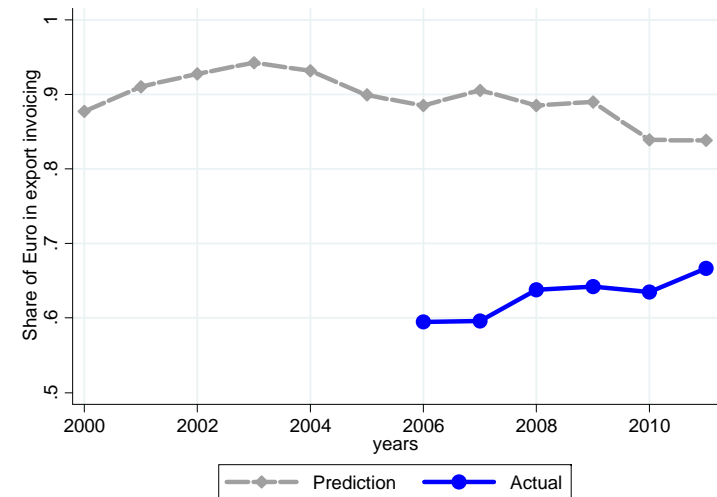
(b) Japanese Yen in Japan's Exports



(c) USD in Japan's Exports



(d) Euro Share in Euro Area's Exports



Roles of an International Currency

Table 1:

<i>Function of money</i>	Governments	Private actors
<i>Store of value</i>	International reserve holdings	Currency substitution (private dollarization)
<i>Medium of exchange</i>	Vehicle currency for foreign exchange intervention	Invoicing trade and financial transactions
<i>Unit of account</i>	Anchor for pegging local currency	Denominating trade and financial transactions

Source: Kenen (1983)

Some Observations

- Becoming an international currency requires financial openness, liberalization of domestic financial markets, and (probably) political stability
- An international currency also makes a country more susceptible to external monetary shocks
- Even if other countries merely anchor to RMB, this limits the ability of China to manage its exchange rate