LONDON metropolitan university

the Global Policy Institute
Policy Analysis in a Changing World

Policy Paper

Number 26
January 2014

The Internationalisation of the Renminbi (Rmb)

Author

Professor Chris Dixon
Professorial Research Fellow &
Head of GPI Asia,
Global Policy Institute

Contact:
c.dixon@gpilondon.com

Global Policy Institute
31 Jewry Street
London EC3N 2EY
Tel:+44 (0)20 73201355

www.gpilondon.com

1. Introduction

On 22 June 2013 the Bank of England concluded a Rmb200bn. (US$32.6bn.) currency swap agreement with the Peoples Bank of China in order 'to promote bilateral trade between the two countries and to support domestic financial stability should market conditions warrant' (Bank of England 2013; Noble 2013). This is the first such agreement with a G7 economy and highlights the manner in which China is promoting the international use of its currency through a series of bi-lateral arrangements. These are central to a broad strategy aimed at increasing the use of the Rmb in trade settlements, central bank reserves and bond issues. This seeks to build on China's advantages in terms of share of world trade, long-term economic growth, credit worthiness and increasing importance as a source of investment and loans. Further advantage stems from the manner in which the highly managed Rmb with its link to the US$, has shown itself to be extremely stable, but with a gradual appreciation (34% since 2005), which makes it attractive to hold.[1] Against this, the strategy has to navigate around the lack of Rmb convertibility, the still closely controlled Chinese capital regime, and the small and embryonic nature of its domestic financial markets, which conventional views see as major barriers to successful currency internationalisation.[2] In addition, China has to persuade the world to accept a new international currency, displacing established ones, notably, the US$. Which in turn brings both the prospect of American opposition and the broader question of the rise of China as a major global power into the equation. Thus, for many observers the moves to internationalise the Rmb is part of China's long-term aim of displacing both the dollar and the US positions in the global system. However, whatever China's long-term goals, in seeking to understand the motivation for the internationalisation of the Rmb, it is not necessary to go beyond the economic disadvantages that China is experiencing from the limited use of its currency.

This paper reviews the motives, advantages and constraints that China faces, the internationalising strategy that has been adopted, its success to date, and the likely outcome.

2. Motives for Rmb internationalisation

The extremely limited international use of the Rmb contrasts sharply with China's share of global trade and output, particular when compared to the positions occupied by the USA and the US$ (Table 1). The current situation significantly disadvantages China, particularly with respect to trade, where the limited use of the Rmb markedly increases the costs of transactions. This results from the need to hold reserves of foreign currency in order to meet cross-border obligations, with the attendant problems of uncertainly over exchange rate movements. In contrast, the USA with virtually all its trade denominated in US$, has no such problems and can, if necessary, print more of its currency to meet settlements. The limits on the use of the Rmb also create mismatches and uncertainties on China's international balance sheet. The results from the extent to which its liabilities are denominated in Rmb while its foreign claims are in other currencies, dominantly the US$. This heavy dependence on the US$ has become a source of concern to China, particularly with the onset of the global financial crisis. This raised the prospects of US$ instability and loss of confidence in American bond markets, with consequent adverse impacts on China's trade costs and, even more, the value of its reserves. Concerns that have continued with speculation that the USA might attempt to improve its competitive position and reduce its levels of debt by currency depreciation and/or promotion of domestic inflation. These fears have so far proved groundless, and the American currency and bond markets have weathered the crisis remarkably well. Indeed, even the loss of one of its triple 'A' ratings did little to disturb the situation, with subsequent 40% appreciation of the US$ and increased financial in-flows. This, it can be argued, particularly in the context of the on-going problems of the Eurozone, reflects the lack of any safer or more liquid haven for funds.[3]

However, the crisis set alarm bells ringing for Chinese policy makers and there is no doubt that they would like to reduce exposure to the USA's currency and policies. While initially proposing (with the other BRICS) that the US$ should be replaced by a new reserve currency, a suggestion that gained little traction, they subsequently moved to the vigorous promotion of the use of the Rmb (section 6). However, this brings the Rmb face to face with the US$.

3. The embedded US$

In internationalising its currency China faces the extent to which the US$ is embedded in the international system at almost every level.[4] While it has become increasingly fashionable to predict the decline of the US$ as part of a general eclipse of the global position of the USA,[5] it remains *the* international currency for pricing and measuring of value for almost every major commodity, international reporting, statistical compilation, trade, exchange rate anchor and store of wealth. It is also by far the most available currency in the global system.[6] However, the dominant role of the US$ has increasingly reflected inertia as the relative position of the USA in global trade, credit, investment and growth has declined. [7] That is, to a considerable extent the US$ is used because it is used and new actors in the global system become socialised into its norms, which include: trading in US$ because others do, even when this does not involve the USA; stabilising ones currency against the US$ even when the USA is not the dominant trading partner because by doing so the currency is stabilised against all those other currencies that also stabilise against the US$;[8] paying for commodities in US$ because that is the currency that they are priced in; and holding reserves in US$ because it makes sense to hold reserves in the same currency as debts are denominated and trade settled.[9] A critical factor in all of this is what might be called the 'petro-dollar' regime, with the continuing rapid increase in demand for oil and a massive (and highly speculative) futures market, ensuring an ever expanding demand for the US$. A situation that the USA has sought to maintain with vigorous opposition to any moves to shift away from US$ oil pricing.

It must also be stressed that this persistence of US$ use does in many cases reflect significant geostrategic considerations with respect to the USA (Posen 2008: 86-95). There is no doubt that these have played a part in limiting the challenges to the US$ posed by other currencies, notably the Yen and the German Mark during the 1980s, and more recently the Euro.[10] Though it should be stressed that there has been a tendency to overestimate the ability of the challengers to internationalise their currency while underestimating the continuing strength of the USA and its currency (Pollard 2001: 29).

However, despite the continuing strength of the US$, since 2001 there has been some reduction in its use in reserves and trade settlements, most significantly as a result of the establishment of the Euro, but also because of the increased use of such currencies as the Yen, Sterling and the Australian and Canadian dollars (see Table 2 and comments below). However, that the US$ has so far maintained its broader financial position (as noted in Section 1) is illustrated by share of international bond market and foreign exchange trading (Table 2). Indeed, the extent to which the US$ has maintained its position in the face of the establishment of the Euro as a major international currency (Table 1) tends to underline the extent of the embedding and inertia. It calls into question the many predictions that the Euro would rapidly come to supplant the global position of the US$.[11] While this tends to highlight the challenges that China faces in internationalising the Rmb, the position of the Euro does reflect the capacity of the international system to accommodate more than one major currency (see comments in Section 6).

The decline in US$ share of foreign exchange reserves, and the gains of the Euro have been most marked in emergent and developing economies (Table 2). However, the changes do need to be understood in the context of exchange rate shifts, revisions to the way the IMF calculates reserves and the partial nature of the data, which almost certainly under-estimates the role of the US$, particularly in emergent markets which have become the principle drivers of global reserve accumulation.[12] It is also important to stress that the decline shown in Table 2 was from a peak of US$ holdings and currency valuation, and the 2012 position remains well above that of the mid-1990s.[13]

A more significant decline in US$ use appears to have taken pace in trade settlements, however data remains far from comprehensive and should be viewed with caution (ECB 2009: 36; Kamps 2006: 7; Otero-Iglesias 2011).[14] During the late 1990s the US$ *may* have accounted for as much as 53% of settlements compared to 30% for the legacy currencies of the initial Eurozone members (Papademos 2008; Pollard 2001: 2). By the end of 2012 the relative position had shifted to US$ 31.7% and Euro 39.7%.[15]

On the basis of the 2012 data, the use of the Euro has come to match and even exceed the Eurozone and wider EU shares of global trade (Table 1). However, both the trade share and the use of the Euro are heavily concentrated within the EU itself (ECB 2009; Goldberg 2005; Kamps 2006; Auboin 2012: 9). While there has been some major replacement of the US$ in both intra- and extra-Eurozone/EU trade,[16] significant amounts of external trade continued to be invoiced in other currencies, principally US$. In 2012 62.5% Eurozone exports of goods were invoiced in Euros and 49.0% of imports – a major factor in the latter was oil, only 12% of which was paid for in Euros (ECB 2013: 28-29). In contrast, the USA is able to denominate over 90% of its trade in US$, which, unlike the Euro, is also widely used in transactions that do not involve the USA (Auboin 2012; ECB 2013: 76-79; Goldberg and Tille 2009). Thus, despite its reduced share of trade settlements, the US$ continues to be substantially more internationalised than the Euro. A crude measure of this can be obtained by dividing the global proportion of use in trade settlements by the export share. Using the figures contained in Table 1 this brings out very sharply the difference between the Euro (EU 1.1 Eurozone 1.4) and US$ (3.8).[17]

While a significant proportion of US$ 'third country trade' relates to US$-priced commodities, with major producers invoicing virtually all their exports in US$, it also involves much general invoicing of trade. This has been particularly well documented within East, South East and Southern Asia, where Kamps (2006: 43-47) study of nine countries found that of 83.3% of exports were invoiced in US$.[18] Similar levels have been cited by a number of other studies (Auboin 2012: 9; ECB 2009; Goldberg and Tille 2009: 16; Nakonieczna-Kisiell 2009). Even Japan invoices a significant amounts of its exports in US$, not least within Asia (Table 3). In all these cases the use of the US$ for exports payments greatly exceeds the proportion of their trade that goes to the USA. In Thailand, for example, 80% of trade was settled in US$ during 2011, but only 9.5% of trade involved the USA. Thus, in trade settlement terms, Asia may be regarded as a 'dollar zone' with the use of the currency being backed by US strategic interests and long-term alliances. In consequence, while given China's increasing domination of Asian trade and production (see Section 5) there is considerable scope for replacing the US$ with the Rmb, this is already engendering significant concern on the part of the USA (see Sections 6 and 7).

The problems for China that result from the incumbency of the US$ are compounded by the extent to which China is heavily dependent on the stability of the USA's currency and financial markets. For given the level of its US$ holdings (some 70% of reserves) and heavy use of US$s in trade settlement, notably for energy imports, any moves that destabilized the US$ would be seriously damaging for China. A situation that might be exacerbated by retaliatory moves on the part of the USA (see comments in Section 7). Thus, in seeking to engineer any shifts to the Rmb and away from the US$, China has to tread very carefully as well as having to navigate around its own domestic constraints resulting from continuing currency and capital controls.

4. The persistence of Chinese currency and capital controls

The liberalisation of controls over access to the currency or cross-border capital movements is proceeding cautiously, even by Chinese standards. This reflects the extent to which control over domestic investment remains integral to the Chinese mode of development. Essentially, the financial system centres on the channelling of domestic saving and state funds though the banking system. Such a situation could be very significantly disrupted by rapid financial liberalisation that facilitated, for example, the growth of domestic bond markets that diverted savings away from bank deposits, or large-scale cross-border flows. Deep seated concern over the latter largely explains continuation of controls over capital movements and cross-border Rmb transactions. Uncontrolled use of the Rmb could well lead to substantial circumnavigation of the capital regulations through 'over-invoicing'. Indeed, there is much anecdotal evidence to suggest that significant leakage of capital does take place despite the controls (see also Section 6).

China has also taken on board the lessons of Japan's attempt during the 1980s to internationalise its currency through rapid liberalisation, notably the abrupt removal of the long-standing currency controls in1982 and revaluing the yen. This not only failed to significantly promote the use of the yen, but also played a significant role in the property bubble and crash which ushered in the so-called Japanese 'lost decades' (see for example ECB 2012: 42-45).

Essentially, Chinese policy makers are concerned that any rapid liberalisation runs the risk of importing instability and undermining development policies and priorities. Such concerns have been significantly reinforced since 2007, as Chinese controls largely insulated the economy from the direct impact of the financial crisis while facilitating both managing the currency in order to maintain exports and directing the banks to increase lending. Subsequently, the benefits of the cross-border controls were further demonstrated by the large-scale, and potentially highly destabilising, financial outflows from the Western economies that resulted from quantitative easing, particularly by the USA. In the absence of controls such flows could have been particularly problematic for China, given that there were already significant asset bubbles and rapid expansion of unregulated shadow banking. These resulted from China's general investment policy and bank regulation, but were exacerbated by the massive stimulation of the economy (equivalent of 14% of GDP) that successfully offset the 2008-9 collapse of export markets. Finally, the continuing global economic uncertainly, which some see as heralding a long period of low growth and recurrent crisis, particularly for the Western economies (the 'New Normal'), give China further reason to be cautious.

5. Chinese advantages

In terms of promotion of the use of its currency China has the advantage, not only its economic strength, the stability of the Rmb and extent of trading activities, as already noted, but also of its increasingly central place in the complex East and South East Asian regional production system.[19] Within this, China has become not only the principle trading partner and the major driver of growth and integration, but also the region's most important interface with the rest of the global system. China is also becoming a major provider of investment and credit for all the countries involved in the production system, as well as establishing currency swap arrangements with their central banks.[20] Increasingly, China's fortunes are also those of the regional production system. This position gives China some significant leverage to persuade countries to adopt the Rmb in trade settlements. A similar argument can be made with respect to China's spreading trade network in the rest of the Global South, a development that is also becoming heavily supported by investment and credit provisions that offer alternatives to the international agencies and Western donors.

China is also advantaged by some significant anti-USA / IMF / US$ sentiments in much of the Global South. Something that has been added to since 2007 by the America origins of the crisis, direct impact on emergent economies in particular, and views that quantitative easing has been implemented with no regard for its impact outside of the USA.[21]

Indeed, lead by the BRICS, there has been much criticism of the 'exorbitant privilege' that the USA extracts from the position of its currency, not least with respect to lowering the cost of trade and borrowing.[22] However, for many of the countries concerned, whatever their feelings towards the USA and its currency, the advantages that might result from a shift to the Rmb, would have to be weighed against damaging relations with the USA, particularly with respect to security. There is also the issue of the extent to which countries might be happy to increase their dependence on China and its economic fortunes.

6. Chinese strategy and progress to date

Significant and coordinated promotion of the use of the Rmb dates from July 2009. This took the form of a pilot involving selected 'trusted' traders in five Chinese cities who were allowed to establish Rmb settlements with counterparts in Hong Kong, Macau and ASEAN. This was subsequently expanded (in June 2010) to 20 cities and in August 2011 to all parts of China. Developments that were accompanied by a series of bilateral agreements over the use of Rmb in trade settlements.[23] These have variously facilitated invoicing in Rmb and the currencies of some key trading partners (notably Japan and Russia), and direct exchange of currencies. While such agreements are concentrated in East and South East Asia, they are spreading rapidly throughout the Chinese trading network. Particularly significant are the arrangements with Australia, Brazil, Japan, Russia and Germany. The latter agreement reached in June 2010 saw the portion of German-China trade settled in Rmb increase from 2.4% to 8.4% by May 2013. However, it is the agreements with Russia (because of the scale of oil and gas transactions) and Japan (with 25% of trade going to China) that have the potential to massively expand the use of the Rmb and significantly reduce the use of the US$.[24]

The whole process of Rmb promotion is being reinforced by: the extent to which Chinese investment and credit provision is following trade agreements; arrangements between the Bank of China and the central banks of over 20 trading partners to exchange Rmb for US$ on demand; the realisation amongst countries (and individual traders) that they will get more advantageous terms if they agree to settle in Rmb; the development of the international Chinese banking network which facilitates payment through local banks; and the related moves by China to establish a very rapid (and low-cost) post-trade Rmb settlement system.[25] The latter has also to be seen as part of moves by the ASEAN+3 group to establish such a system in East and South East Asia, that also makes the maximum use of local currencies (ASEAN 2013; Chan 2013).

Given the concerns over uncontrolled currency trading and bond issues noted above (Section 4), China has opted to promote these activities offshore. Again proceeding in a gradual manner through a series of bi-lateral agreements which permitted trading and bond issues. The process started in Hong Kong in 2007 with issues by selected mainland financial institutions was opened to Chinese and foreign companies in 2010 and then spread gradually to Malaysia, Japan, Singapore, Taiwan, South Korea, London and France (by November 2013). Issues have been made in Hong Kong and London by Banco de Brazil, the Australia and New Zealand Bank and such companies as Volkswagen and Tesco (HSBC 2013: 15). While the bonds have been purchased by South Korea, South Africa, Indonesia, Thailand and a number of African countries, including Nigeria, reflecting the number of central banks that are coming to hold a small proportion of their reserves in Rmb or Rmb denominated bonds (HSBC 2013: 15).

As with trade settlement, the holding of

Rmb reserves has been promoted by bilateral agreements. At the time of writing (November 2013), the most important of these is with Australia (April 2013) which agreed to move 5% of reserves into Chinese bonds.[26] This increased willingness to hold Rmb reserves reflects both increasing use in trade and the related establishment of currency swaps. By November 2013 swap agreements had been signed with some 25 countries.[27] A further sign of the increased importance of the Rmb is the switch of seven major Asia currencies from tracking the US$ to tracking the Rmb (including Indonesia, Malaysia, South Korea and Thailand), leaving only three on the US$ track (Hong Kong, Mongolia and Vietnam).

The Chinese strategy does appear to be resulting in some remarkable increases in the use of the Rmb (Auboin 2012: 15). From a situation in 2008 when only a handful of neighbouring countries made any use of the Rmb in cross-border and domestic transactions, by May 2013 160 countries paid some part of their China trade in Rmb, 47 of them paying for more than 10% (compared to 29 in May 2012) - with some individually strikingly high levels, notably Singapore (30%), the Gulf States (38%) and Taiwan (44%; Nicholova 2013). Overall, 11.4% of Chinese trade was settled in Rmb, compared to 2.5% in mid-2010 and near zero in mid-2009 (Rhee and Lea 2013: 10).[28] In addition, the Rmb share of foreign exchange transactions increased from 0.9% in April 2010 to 2.2% in April 2013 (BIS 2013). More striking is the increased use of the Rmb in traditional trade finance, Letters of Credit and Collectables (this is of course only one element of trade settlements). Between January 2012 and October 2013 the Rmb share increased from 1.89% to 8.66%, overtaking the Euro (6.64%), though making little impression on the domination of the US$ (81.08%; SWIFT November 2013c).

While the speed of change is quite remarkable, it must be kept in perspective. For although between January 2012 and May 2013 the Rmb share of global trade settlements increased more than threefold, moving it from the 20th most used currency to the 13th – overtaking the Danish Kroner and the Russian Rouble, the increase was from 0.25% to 0.84% of global trade settlements.[29] In addition, there may well be some exaggeration of the use of the Rmb because of the issue of Rmb letters of credit which are used to raise offshore funds rather than make trade settlements. Similarly, some firms are believed to capitalise on the differences in the onshore and offshore values of the Rmb (known respectively as the Rmb CNY and the Rmb CNH), exchanging these in Hong Kong and then converting them to US$ for use in trade settlements. Both of these activities are essentially exploiting gaps in the capital controls framework (HSBC 2013: 10, 26). This may go even further, with suggestions of both significant over-invoicing (*Financial Times* 20 June 2013) and even dummy corporations being set up to channel funds.

7. Prospects for success

China's approach in the internationalisation of its currency has involved some significant innovation. This is enabling it to make some impressive progress while retaining a largely closed financial system with limited convertibility. The critical question is how far can current Chinese strategy take the Rmb? On present trends it could overtake Sterling by 2015-16 to become the third most used currency. Such increased use being heavily concentrated within the East and South East Asian regional production system, where the high levels of intra-firm trade may engender both a degree of 'third country' use and the prospect of the Rmb regional currency. Such expansion of trade use being accompanied by related, but rather less significant, increases in Rmb reserve holdings. However, even the overtaking of Sterling would involve some major displacement of the US$, the deep imbedding of which in the international system is reinforced by inertia of users, supported by the USA's long-term strategic interests and alliances, and outright opposition to any threat to the Dollar's hegemony.[30] Factors that in various combinations have served to limit past challenges to the US$ and whose on-going strength it would be dangerous to underestimate. Undoubtedly, any prospect of significant US$ displacement, particularly by the Rmb would provoke significant opposition by the USA. A response that has also to be seen in the context of the USA's anxiety over China's increasing economic power and influence, particularly in Asia and the Global South as whole, and concerns that other countries might seek to emulate a Chinese currency challenge.[31]

So far the opposition of the USA's government, financial sector and corporate sector as a whole, to the internationalisation of the Rmb, remains at the level of rhetoric and non-participation. This is reflected in the failure to expand the use of the Rmb in trade settlements[32] and the lack of any moves to establish trading of Rmb and Rmb denominated bonds within the USA. There is, however, significant concern over the various Chinese bilateral agreements that threaten to increase the use of the Rmb at the expense of the US$, notably those with Russia and Japan.[33] Since early-2012 there has been increasing reference by US commentators to the emergence of a 'dollar exclusion zone' in Asia and concern that agreements with Argentina, Brazil, and Venezuela signify that this has 'crossed the Pacific'.[34] While as yet none of this has made any significant inroads into the US$'s use, the general tone suggests that the USA may attempt to forestall shifts away from the US$ by establishing agreements with trading partners that reinforce the present position. It could be, for example, that the proposed Trans-Pacific Partnership might be used as a vehicle for locking countries into US$ denominated trade. A proposal that is already playing on the unease that many Asian countries feel over their heavy economic dependence on China and what many see as its increasingly assertive foreign policies.

While China may be able to continue the rapid expansion of trade settlements (whatever the US opposition) and the much more gradual increase in the use of the Rmb in reserves and bond issues, it is difficult to see how this will make any significant dent in the US financial markets or the reserve position of the US$ in the immediate future.[35] For this would necessitate a massive expansion of the Chinese domestic financial sector and on-shore bond markets, with attendant liberalisation of capital and currency regimes. While the promotion of the financial sector is very much on the Chinese agenda, all the signs are this will be furthered in a gradual and cautious manner. In addition, developments will continue to be weighed against other priorities, particularly the re-balancing of the economy. Indeed, it is difficult to envisage a situation under which China would be prepared to significantly liberalise the currency and the capital regimes until satisfied that this will not have adverse impacts on the domestic economy. However much importance the Chinese authorities attach to the internationalisation of the Rmb, domestic conditions and priorities would be expected to remain the first consideration. This would suggest that both the ambitions for the financial sector and the internationalisation of the currency will continue to be limited to what can be achieved without significant liberalisation. Certainly, the prediction that the Rmb will become fully convertible and the capital account significantly liberalised by 2018 (HSBC 2013), would seem to be extremely optimistic. Similarly, the Rmb is unlikely to significantly impinge on the position of the US$ outside of trade settlements until well beyond 2018. However, unless some major event truncates China's economic rise, the

Rmb is set to become a major world currency, with its use reflecting China's global position, and as such significantly displace the US$. The question is one of *when* rather than *if*.

Notes

[1] Given the slowing of the growth of Chinese trade and GDP, the appreciation may slow and even reverse - though it should be stressed that the general view is that the Rmb is now little overvalued compared to the US$ - something the USA continues to deny (HSCB 2013: 1).

[2] See for example the key requirements for currency internationalisation summarised in Chinn and Frankel (2005) and Pollard (2001: 18-19).

[3] It also reflects a lack of confidence in stocks - the Dow-Jones fell sharply in the wake of the loss of the loss of the triple A rating, as funds move to the safer haven of the treasury bills (Blyth 2013: 3).

[4] Indeed, the level of domination of the global system exhibited by the USA and its currency since the middle of the 20th century is unprecedented. Earlier periods being significantly more multi-currency and power diffused. This was even the case during the height of Sterling and UK power. Thus, one should be careful in assuming that because the UK's loss of lead economic and financial position was followed by a very rapid eclipse of its currency by the US$ (Eichengreen 2011: 30-33; ECB 2012: 49-41), a similar rapid transition with take place with respect to the USA.

[5] Amongst an enormous literature see Eichengreen (2011) on the US$ and Cox (2012) on declinism. Though on the latter, see also Cox (2007) and the rebuttal by Williams (2007).

[6] One indicator of this is the amount of note issue held or circulating offshore. For the US$ this is 50% of the issue (US$600bn.) compared to 13% for the Euro (US$150bn; ECB 2012: 20; Goldberg 2010; US Treasury 2012).

[7] When the present exceptional ascendency of the US$ emerged (late-1940s) the USA was the world's largest creditor (between 1950 and 1980 accounting for 85% of FDI), an exceptionally rapidly growing and dynamic 'global' economy and the world's largest single trader. The loss of these positions, particularly with respect to share of global FDI falling to 20% and becoming the world's largest debtor, has been reinforced by the present crisis to significantly reignite the debate over American declinism.

[8] In 2010 approximately half of the world's currencies and the economies involved (89) were linked directly to the US$, accounting for 35% of global GDP (Goldberg 2011: 23).

[9] See amongst an extensive literature: Chandrasekhar 2010; Eichengreen 2011: 121-126; Goldberg 2010; Lim 2006; WTO 2012: 3-8.

[10] See the overview of these by Eichengreen (2011: 126-130).

[11] Amongst an enormous literature see for example: Chinn and Frankel (2005). Such predictions have under-estimated the strength of the Dollar's international position, and over-estimated the strengths of the Euro. On the weaknesses of the latter as an international currency see Eichengreen (2011: 130-133).

[12] There were some significant revisions to the IMF's methodology which particularly affected the Euro - notably the 28% upward revisions of the reserves in 2001 (IMF 2003, 2012: 5 note 3). While between Q1 2002 and Q3 2007 the US$ depreciated 39% against the Euro (Posen 2008: 83). More problematic

is the partial and changing nature of the IMF data-base. In 2001 allocated reserves comprised 76.6% of the reserves of the 120 countries that reported and were considered sufficiently reliable to be included. While in 2012, 145 countries were included, they only allocated 54.7% of their reserves (Kohler 2012). The IMF does not release the names of the countries that are included, but it is believed that some very significant holders of reserves, particularly of US$ are not include, notably in Asia, where China does not report the composition of its reserves to the IMF and Taiwan is not a member (ECB 2006: 10 Note 15; Otero-Iglesias 2011).

[13] Between 1993 and 1996 the US$ share of reserves was a very consistent 56.6%. Neither this, or the other qualifications, were stressed in my earlier comments on the shift away from the US$ as a reserve currency (see Dixon 2010: 8).

[14] For the EU despite some significant efforts by the ESCB (European System of Central Banks), data on trade settlement remains extremely poor with significant gaps in the coverage (even for France and Germany), and heavy dependence on sample surveys and estimates (ECB 2009: 36; Otero-Iglesias (2011).

[15] Now the best and most (but not fully) comprehensive indication of the use of currencies in trade is provided by SWIFT (Society for Worldwide Interbank Financial Telecommunication; Anboin 2012: 9).

[16] Use of the Euro and US$ in trade settlements:

	1999		2004	
	Euro	US$	Euro	US$
EU excluding Eurozone	56.1	37.5	62.5	25.0
Eurozone	47.9	35.4	58.3	27.0
Extra-EU	20.8	56.3	27.7	49.1

Source Kamps: (2006: 18, 22, 43-47).

[17] This compares to 3.9 in the immediate pre-Euro period when the ratio for the German Mark was 1.4, French Franc 1.0, Italian Lira 0.8 and the Netherlands Guilder 0.9 (Pollard 2001: 29).

[18] The Euro accounted for 10.4% of settlements but this was entirely restricted to trade with the EU.

[19] For an analysis of this production system see WTO and IDE-JETRO (2011).

[20] These had been established since the 1997 Asian regional crisis as part of the development of financial safely nets.

[21] As was noted in Section 2, the shift away from the use of the US$ in reserves has been significantly more marked in the emergent and developing economies.

[22] Expression of such discontents goes back to at least the 1960s and have been repeatedly reinforced by the manner in which the USA has used its financial position to pursue many of its wider policy objectives.

[23] For more details of the agreements and overall strategy see Auboin (2012: 15), HSBC (2013) and Subacchi (2010).

[24] In 2012 Russian-Chinese trade was US$88bn, almost entirely dominated in US$. While 42.1 % of Japanese manufacturing exports to China were invoiced in US$, 48.1% in Yen and 1.3% in Rmb (Ito *et al* 2013: 8).

[25] This is an area in which the EU has been conspicuously poor in addressing with respect to the Euro.

[26] Other countries that had announced that they were holding reserves in Rmb included (in order of announcement): Malaysia, South Korea, Nigeria, Chile,

Venezuela, Japan and Indonesia, Belarus, Taiwan and Thailand (BBVA 2013).

[27] Within Asia these included Hong Kong, Indonesia, Malaysia, Mongolia, Pakistan, Singapore, South Korea, Thailand, and more broadly, Argentina, Australia, Belarus Brazil, Iceland, Kazakhstan, New Zealand Turkey, France, UAR, Uzbekistan, UK, and Ukraine.

[28] BBVA (2013) suggest an even steeper rise to 15.6% in June 2013 and 16.8% by September.

[29] According to SWIFT (2013a, 2013b) the share of the Rmb in trade settlements increased from 0.25% in January 2012, to 0.53% in August, 0.63% in January 2013, 0.69% in April, and 0.84% in May, with the immediate prospect of challenging the Norwegian Kroner (0.86%) and the HK$ (0.97%).

[30] In the past the USA is believed to have exerted diplomatic pressure on countries to maintain US$ use, not least with respect to Japan in the 1980s and more recently for oil pricing. Some go further, seeing moves away from the US$ (or threats to do so) as a significant element in the imposition of sanctions against Iran and even the invasion of Iraq.

[31] It is certainly the case that countries other than China wish to reduce US$ dependence and see greater use of their own currencies – most significantly Russia, India and Brazil. Ambitions that are also reflected in some general moves to use local currencies in cross border trade, rather than 'third' currencies' – notably in Asia and South America. Thus, the hegemony of the US$ may be replaced by a more diverse currency situation involving a significant degree of currency regionalisation (see World Economic Forum 2012). Indeed, the size of the contemporary global economy gives ample space for the operation of a number of major currencies (see for example Eichengreen 2011: 151-152).

[32] In 2012 95.5% of USA trade with China was settled in US$ and the use of the Rmb was declining with both US officials and firms unprepared to switch away from dollar payments (see for example Ye Xie 2013; SWIFT 2013a).

[33] This would seem to be very largely a matter of prestige, for reduced use of the US$ in third country trade would have little real impact on the economy of the USA (see for example Goldberg 2011).

[34] See list of emotive US headlines in 'China takes another stab at the dollar, launches currency swap line with France', posted by Tyler Durden on 04/13/2013 at 'China takes another stab at http://www.zerohedge.com/news/2013-04-13/china-takes-another-stab-dollar-launches-currency-swap-line-france

[35] The whole situation could of course change if there was some major collapse of confidence in the USA's currency and bond markets.

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Tables

Table 1: Currency use and export share (%)

	Trade Settlement (December 2012)[1]	Reserves (Q4 2012)[2]	Foreign Exchange Markets 2013[3]	Merchandise Exports (2012)[4]
Euro / Eurozone	39.7	24.0	33.3	28.7 (37.1)[6]
US$ / USA	31.7	61.0	87.8	8.3
GBP / UK	8.0	3.9	11.8	2.7
Rmb / China	0.57	N/A[7]	2.2	10.7

Notes: [1} SWIFT (2013b) - this represents a decline-from a Euro peak of 44% in January 2012 and a US$ low of 29.7%; [2] IMF (2013a); [3] ECB (2013: 28) - the figures add to 200%; [4] BIS (2013); [5] World Bank (2013), Eurostat 2013; [6] EU figure in bracket, both include intra-trade (Eurozone 13.3%, EU 23.2%); [7] The IMF does not yet provide a separate total for the Rmb, lumping it with the 2.9% not held in the top 11 currencies - but it seems unlikely that more than 0.5% of reserves are currently held in Rmb.

Table 2: International roles of the US$ and Euro (%)

	Reserves				International bond issues		Foreign exchange markets	
	Advanced Economies		Emergent and Developing Economies					
	US$	Euro	US$	Euro	US$	Euro	US$	Euro
1999	69.8	18.1	74.3	17.3	44.5	20.0	87.3[1]	53.5[2]
2000	71.5	18.4	74.8	18.0	42.0	24.0		
2001	70.6	19.0	74.0	19.6	41.5	25.0	89.9	37.1[3]
2002	66.4	23.3	66.7	24.6	41.0	28.0		
2003	67.1	23.1	61.5	29.6	40.5	30.0		
2004	67.3	22.9	61.6	28.7	40.5	30.5	88.0	37.4
2005	69.2	24.2	61.7	28.6	40.5	31.5		
2006	68.1	22.2	60.6	29.0	41.0	31.0		
2007	66.0	24.2	61.6	28.2	43.0	30.0	85.6	37.0
2008	67.2	23.3	60.0	29.4	43.5	29.5		
2009	65.1	25.4	58.6	30.2	44.0	30.0		
2010	65.1	23.9	58.3	28.4	47.5	29.0	84.9	39.1
2011	66.5	22.3	57.6	27.4	50.0	26.0		
2012	62.2	24.3	60.1	24.1	51.0	25.0	87.8[3]	33.3[4]

Notes: [1] 1998; [2] 1998 Euro legacy currencies, of which the German Mark comprised 30.1% and the French Franc 5.1%; [3] the introduction of the Euro saw a major fall in foreign exchange transactions; [4] 2013.
Sources: BIS (1999, 2002, 2011, 2013); Cohen (2005); ECB (2012: 17, 2013: 28); IMF (2013).

Table 3: The invoicing currencies of Japanese manufacturing exports (%)

	US$	Yen	Euro
Africa	34.7	65.3	2.0
Asia (East and South East)	36.9	59.5	0.4
Central and Latin America	45.6	50.3	4.1
Eurozone	13.6	35.3	51.0
Middle East	42.7	51.9	4.2
USA	77.9	21.8	0.3

Source: compiled from Ito *et al* (2013: 8-12) based on a 2009 survey.

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The Global Policy Institute
London Metropolitan University
31 Jewry Street
London EC3N 2EY
United Kingdom

Tel +44 (0)20 7320 1355
Fax +44 (0)20 7320 3018
Email office@gpilondon.com

www.gpilondon.com

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