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Internationalization of the Renminbi

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The key currency must be the standard of global economic index in goods and services around the world, and therefore, it is necessary that the currency be internationalized in the global financial society, and that needs to be recognized in the market. Once it is recognized as the key currency, we can see a phenomenon that the official quotation of the price of main goods and services is more likely to be provided in that currency. And once the official quotation of the price of these main goods and services is provided, payments will be made in the key currency normally, and as a result, it will be necessary for financial institutions which settle international financial payments to include the key currency into their assets for a settlement currency. Since that is the fund for settlement, it must be raised immediately when it is in shortage, and supplied immediately when it is in surplus.

From this point of view, when financial institutions make settlements, they locate their assets to the place where they can invest and raise their settlement fund easily, which is the country that issues the key currency. International settlement currency is the most accessible there. In that case, the fund located in the country of the key currency is under legal authority of the government that issues the key currency, and thus, its bank account can be investigated through legal procedure of the local government, and occasionally, it can be controlled or even frozen. Up to now, the US dollar has assumed such roles as the key currency, and global financial institutions have located their international settlement fund in the United States, and as a result, their assets have been under the American jurisdiction, and therefore, they have been monitored, or even sanctioned by the US authority. Money launderings are checked in this system, and everything is completely dependent on the United States.

In my view, frustrations are growing in the financial community, because the key currency authority can control and surveil foreign financial institutions based on their own law. Notably, Mainland China detests that their assets are controlled and watched by the US jurisdiction, and therefore, they are proceeding to internationalize the renminbi gradually, and finally, they succeeded in including it into the Special Drawing Right (SDR) currency of the International Monetary Fund. China is pushing this furthermore.

Meanwhile, Britain that draws worldwide attention due to Brexit, is strongly dismayed with a huge amount of penalties to British financial institutions charged by the US government, due to improper investigation of money laundering.

I would argue that this is why Britain approved the inclusion of the renminbi into the SDR, and from now on, we have to bear in mind that Britain would admit internationalization of the renminbi at the London Financial Market, and help the growth of international transactions denominated in the renminbi. In view of closer partnership between British and Chinese central banks, I would like to keep an eye on the internationalization of the renminbi.

(This is the English translation of an article written by SANADA Yukimitsu, College Faculty Member, which originally appeared on the e-Forum "Giron-Hyakushutsu (Hundred Views in Full Perspective)" of GFJ on October 13, 2016.)