**Internationalization of Chinese currency**

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Recent news that the Kingdom of Saudi Arabia (KSA) has reportedly agreed to accept payment in yuan for Saudi oil purchased by Beijing has been received with unusual enthusiasm (or scepticism). It has been argued that the move is likely the beginning of the internationalization of the Chinese currency or the end of the hegemony of the US dollar as an international currency.

With its Belt and Road Initiative (BRI) – dubbed as the ‘project of the century’ – in addition to advancing its foreign policy and economic goals, Beijing aims to truly internationalize its currency. To this end, the main objective is to export Chinese currency as the settlement currency for trade so as to “internationalize” and broaden the sphere of influence by financial structures.

Qin, Liu and Zhang in their book chapter titled ‘The BRI from within China: mechanisms, institutions and media representations’ say: “China has made bilateral currency swap arrangements with more than 20 BRI countries, RMB clearing arrangements with 7 BRI countries, and has signed cooperation agreements with the financial supervision authorities of 35 BRI countries. These strengthen RMB’s currency functions for international payment, trade and reserves”. For instance, Pakistan also signed a currency swap agreement with China which had significant implications for the internationalization of the renminbi (RMB), argue these authors.

However, as Doshi has aptly stated in his well-received book ‘The Long Game: China's Grand Strategy to Displace American Order’, China has a ‘fast-aging population, enormous debt, slowing growth, and a currency still far from rivaling the dollar’.

Hence, although Beijing has made solid progress in this direction, it is highly unlikely to dislodge the dollar from its current position of an unrivalled international currency.

That said, China has been quite active and steadfast in promoting the renminbi’s use in international trade, especially through signing several dozen swap agreements of different varieties that facilitate the use of its currency overseas. For example, by 2015, trade settlement in RMB reached $1.1 trillion – about 30 percent of Beijing’s total trade – from virtually zero in 2000. If the same trend continues, which is expected as more and more BRI projects are implemented in numerous countries, this percentage is likely to witness an upward trajectory. It could considerably reduce China’s vulnerability to the US’s structural power because Beijing will be in a more advantaged position than it currently enjoys conducting international trade in its own currency.

The currency war has remained a historical phenomenon. At the zenith of power, France sought to establish a frank area excluding Germany in the 1860s. Then, Nazi Germany and imperial Japan extended their currencies in the twentieth century to gain structural power; and the US followed suit as well after the end of the Second World War.

Another area in which Beijing has made some progress is related to the cross-border payment system offering clearing and settlement services for its participants in international financial transactions. Currently, there is a complete monopoly of SWIFT’s structural power, which at times has been deployed by great powers to coerce countries such as Iran, North Korea and Russia from time to time. The organization, known as the Society for Worldwide Interbank Financial Telecommunication, was founded in 1973 when 239 banks from 15 different countries created unified messaging standards. It is a messaging programme and a network that makes cross-border financial payments possible, thereby constituting the sub-structure of global finance. According to the organization, SWIFT became the nodal financial messaging system with “the connection of the first central banks in 1983”. Today, SWIFT spans over 200 countries and territories and more than 10,000 institutions, facilitating 15 million messages daily. It has emerged as a vital financial infrastructure that makes international payments possible.

Although it is not to counter SWIFT but to ‘complement it’, as Chinese officials have maintained, China has come up with Cross-Border Interbank Payment System (CIPS). According to CIPS, about 1,280 financial institutions in 103 countries and regions are connected to the system, including 30 banks in Japan, 23 banks in Russia, and 31 banks from African nations receiving yuan under China's BRI investments.

Backed by the People’s Bank of China (PBOC), Beijing launched the CIPS in 2015 to internationalize its currency. It is a payment system that offers both clearing and settlement services and it also counts several foreign banks as its important shareholders. Although nowhere near to SWIFT, CIPS processed around 80 trillion yuan ($12.68 trillion), with about 1280 financial institutions in 103 countries and regions having connected to the system in the year 2021.

Given the above facts, although China has been making efforts and has taken practical initiatives for the internationalization of its currency, it is in no position right now to dislodge the dollar from its position as a globally valued currency. Data from SWIFT indicates that the RMB accounts for only between one and two percent of all international payments at the moment. Perhaps as an increasing number of BRI projects are executed, it may further lead to the internationalization of the Chinese currency.

For instance, of all the BRI projects, “data from the State-owned Assets Supervision and Administration Commission of the State Council suggests that, in early 2019, central SOEs took up 50 percent of the infrastructure projects either already underway or in the pipeline, with over 70 percent of the contract value, spreading across more than 3,200 projects. According to the figures, central government-controlled SOEs had 10,791 overseas units in 185 countries and regions in 2019, and its foreign assets totalled more than RMB 7 trillion (USD1 trillion) in the same period, with annual operating revenue and profit reaching RMB 4.7 trillion and RMB 106.4 billion, respectively”.

These figures indicate how Chinese SOEs are operating in numerous countries under the BRI and how they can achieve the goal of the internationalization of the Chinese currency in the future.

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