Internationalization of Chinese Currency
Trends and Progress

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Abstract

Close control of the renminbi - (RMB)—also known as the Yuan, has been a characteristic of Chinese economic policy in the modern era. As Chinese economy matures, the need to develop internal capital markets, ease monetary policy pressures and as a consequence open the capital account has become more important. Despite slowing economy Chinese authorities continue to reform its financial system very prudently though. China still controls its currency by regulating domestic interest rates, capital flows and restricting convertibility. Thus promoting RMB use in international trade reversed the usual sequence of practice when deregulation came before internationalization. Since China introduced RMB trade settlements in 2009, the country's efforts at currency liberalization have been characterized by expansion abroad and a facilitating of obstacles at home. By the end of 2013, the RMB had risen to become the second most used trade financing currency and ninth most used currency for payments globally. However when considering all functions that money plays in economy (for individuals and public sector), either on country level or internationally, it is far from certain that RMB will become global currency very soon. Yuan[1] still accounts only for 1.4% of global payments (US$ takes 42.5%) and has a minuscule importance for international investments. Its role as a reserve currency kept back in individual and sovereign savings coffers is also minor. What counts though is a rapid growth, within very short period of time, of its importance in international trade among major trading partners and the consequence of potential increase of Chinese currency role in predictable future. The important condition is how quickly the authorities are able to carry out necessary reforms and actually, considering international finance environment, if China really wants to fully liberate its currency. Interesting enough is *Chinese way* of experimenting while introducing new rules and regulations. This refers to chosen localities and chosen institutions involved.

Key words: RMB (renminbi), Yuan, global currency, money functions, capital markets, ADB, PBoC – People's Bank of China, QFII- Qualified Financial Institutional Investor, BCSA - Bilateral Currency Swap Agreement.

Introduction

The growing economic influence of China in the global economy has led to discussions about

[1] RMB (renminbi) and Yuan refers to the same currency, because both names are used simultaneously in different countries. Onshore RMB designated CNY and offshore RMB designated CNH among professionals.

whether the RMB might become an important international currency. The campaign to promote the Yuan as an international currency began in earnest in 2007, with China's introduction of dim sum bonds[2] — RMB-denominated bonds issued outside of mainland China. This led to the creation of a system of "one currency, two markets" with onshore RMB designated CNY and offshore RMB designated CNH. This was followed in 2010 by a trade settlement scheme allowing for RMB transactions between Chinese and foreign businesses – swap agreements-, and in 2011 measures were implemented permitting RMB-denominated direct investment, both into and out of China.

Offshore RMB centers have been established in Hong Kong, Singapore, Taiwan, London, Paris, Frankfurt and Luxembourg, and at least 40 central banks from around the globe have allocated partial reserves to the currency. Recently, the People's Bank of China -PBoC-signed a high-profile currency swap agreement with its EU partner, the European Central Bank, adding to the list of 23 countries and territories with such agreements in place. Is really Yuan (RMB) becoming GLOBAL CURRENCY? In spite of issue's complexity the article tries to put some light on it.

International Functions of Money-Yuan Performance

To really understand the way Chinese currency has to go to become global currency we have to recollect what functions does money performs in economy. First: it represents the value of all products existing on market via pricing. Second it facilitates turnover of commodities by separating two transactions – buying and selling and settling their value in comparable terms (trade settlement). Third it may create financial claims (modern financial market operations) with the name: unit of account. Fourth it is handy means of keeping reserves (savings).The public sector, businesses and individuals use different instruments and institutions while operating within complex international economic and financial system. Rough categorization is presented in table1.

Table 1
Functions of an international currency

Functions	Public sector	Private sector
Store of value	International reserves	Currency substitution (private dollarisation) and investment (portfolio allocation)
Medium of exchange	Vehicle currency for foreign exchange intervention	Invoicing and settling for international trade and financial transactions
Unit of account	Anchor for pegging local currency	Denominating international trade and financial transactions

Sources: Gao and Yu (2009) and Chinn and Frankel (2005), originally based on Kenen (1983).

[2] Dim-sum bonds are bonds denominated in RMB issued and traded in off-shore markets (name literally means special kind of Chinese dumplings). Similarly: Samurai bonds are bonds denominated in Japanese Yen issued and traded abroad, or Yankee bonds-US dollar denominated bonds issued and traded outside USA.

After; Cui Yumng; *The internationalization of the RMB"…*:

Table 1 shows that an international currency plays three functions: store of value, medium of exchange, and unit of account. What's more, all three functions could be split into two dimensions: public (government) and private. For the public sector, an international currency could be an international reserve currency (store of value), a vehicle currency for foreign exchange intervention (medium of exchange), and an anchor for local currency pegging (unit of account). For the private sector, an international currency could be used in currency substitution and investment (store of value), invoicing and settlement for international trade and financial transactions (medium of exchange), and denominating international trade and financial transactions (unit of account). Generally speaking, in the current global financial system, only the US dollar is unquestionably an international currency. Euro and Japanese yen were once seen as international currencies but both were not very successful. With Euro however we can accept its role as a regional currency.

The internationalization that occurred was an unplanned side effect of economic growth and financial expansion of China. The country issuing an international currency can enjoy benefits such as reducing exchange rate risks and costs, boosting foreign trade, and gaining leading role. But it has to strike a balance between national and global monetary policy.

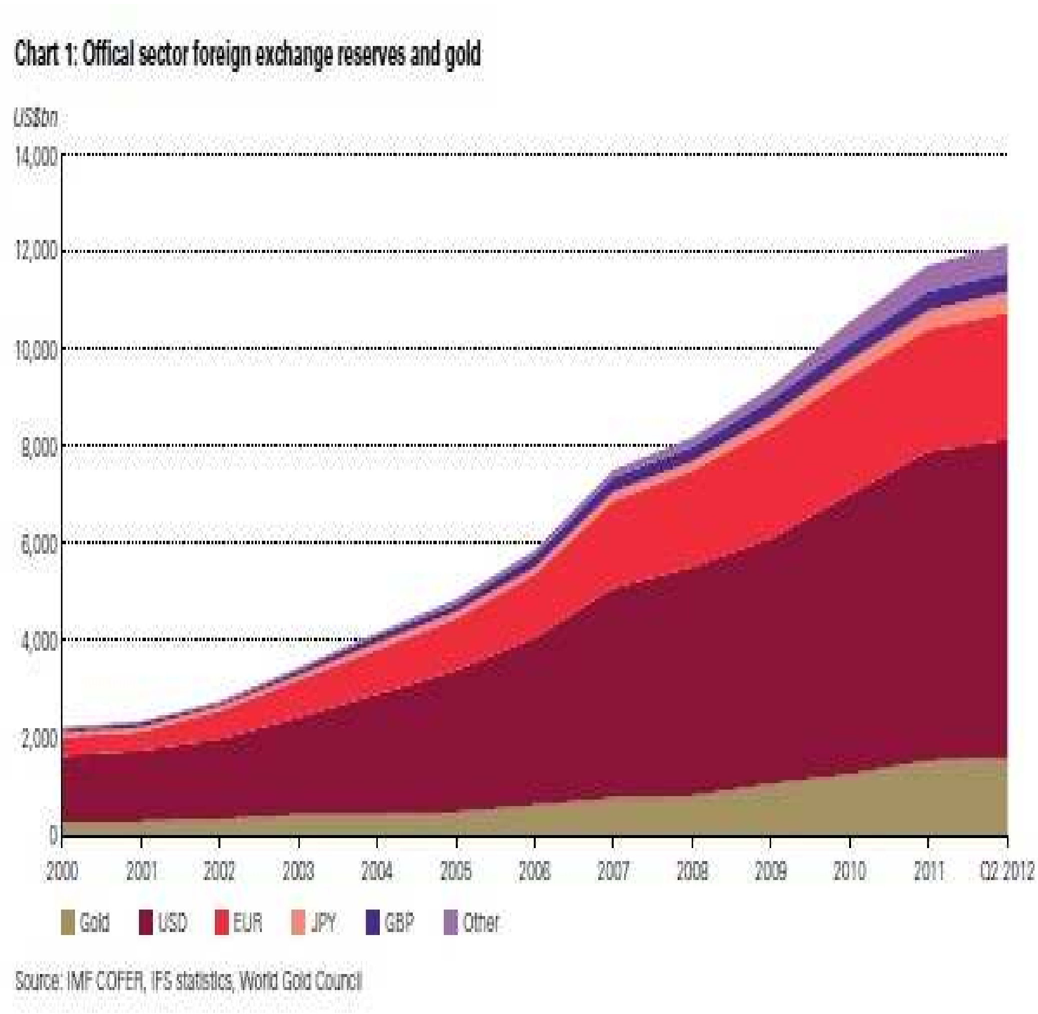
What is the general condition of becoming an international currency? There are three fundamental factors determining whether a currency could become an international currency: size of home economy, confidence in the value of the currency, and the development of its financial markets.

RMG as a Store of Value

During recent global financial crisis, building gold reserves and diversifying basket of reserves (new alternatives) is an optimal strategy for central banks. However scarcity of gold and not so many attractive alternatives that are either too small or, as is the case with the RMB, not yet open to broader international participation creates challenges for central banks. Thus only few countries announced that they do keep small share of reserves in RMB.

On the other hand China's currency reserves have increased more than 700% since 2004 till 2012.[3] Peoples Bank of China (PBoC) announced that, China's foreign reserves reached US$3.31 trillion in 2012. It is estimated that more than 70 per cent of China's foreign reserves is in US dollar-denominated assets, although the PBoC has never published information on the composition of its foreign reserves. During the global financial crisis, the US dollar was devalued significantly because of the quantitative easing policy, which threatened the value of China's US dollar-denominated assets. According to statistics of the People's Bank although the dollar has recovered gradually since the end of 2008, China and other emerging economies that hold a large volume of US dollar assets as their foreign reserves remain deeply concerned about the risk. Therefore, China has attempted to diversify its foreign reserves, especially its foreign exchange reserves.

[3] China's $3.3 Trillion FX Reserves Could Buy All World's Gold Twice; / China's foreign currency reserves have surged more than 700% since 2004 and are now enough to buy every central bank's official gold supply — twice .Bloomberg; March 5, 2013



It is not officially announced how big foreign exchange reserves are hold by central banks of different countries, however from 2011 some countries signed agreements with China to buy its government bonds in RMB (there were Austria, Nigeria, Chile, Brazil and some Asian countries) in 2012 World Bank signed similar agreement.

RMB as a Medium of Exchange

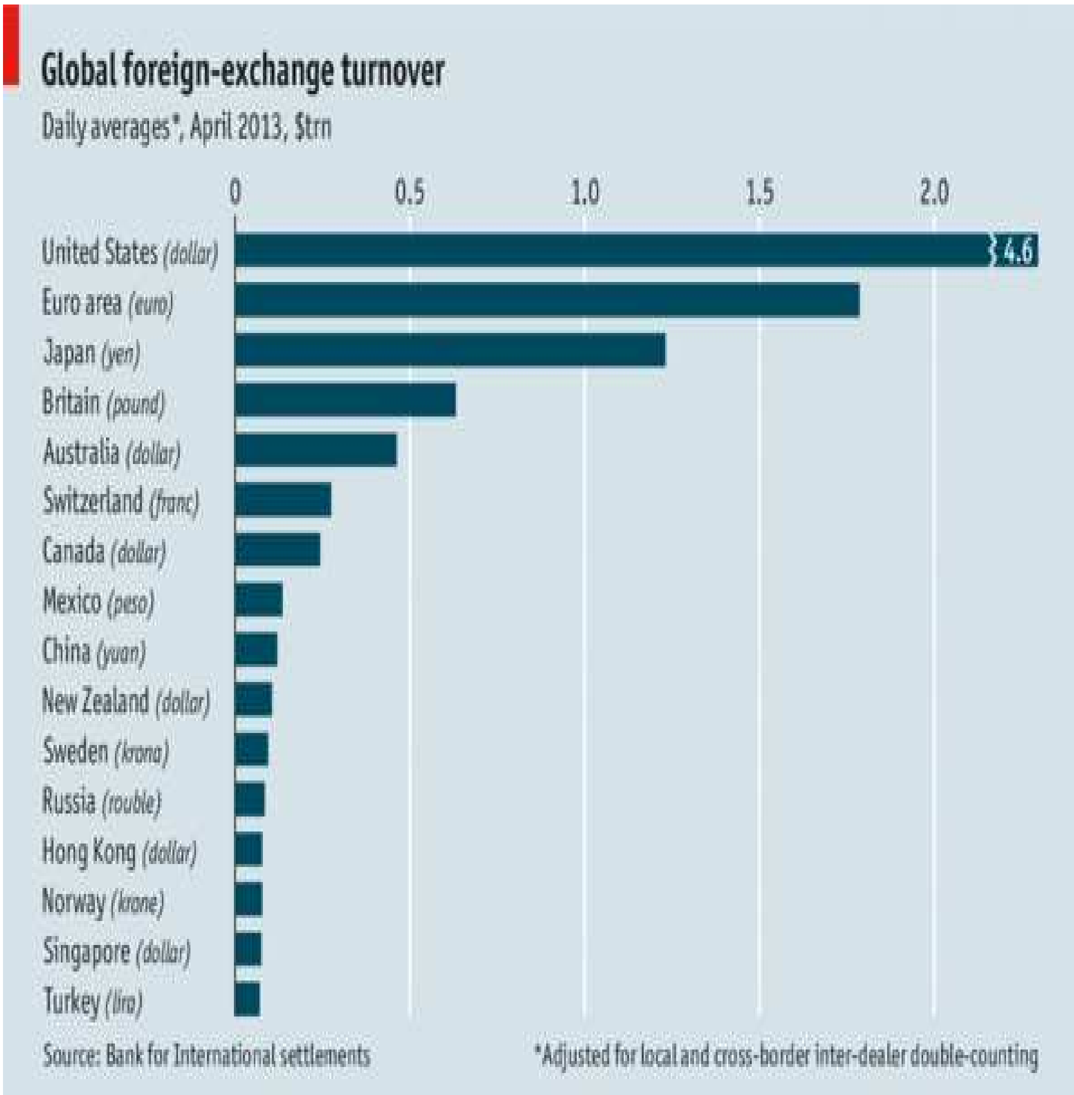
Trading in foreign-exchange markets averaged $5.3 trillion a day in April 2013, reports the BIS in its latest "Triennial Central Bank Survey". This was up from $4 trillion in 2010 and $3.3 trillion in 2007. The US dollar was the dominant currency: 87% of deals contained the dollar on one side. The euro, the second-most-traded currency, was involved in 33% of deals, down from 39% in April 2010. The third-most-traded currency, featuring in 23% of all trades, was the Japanese yen; its market share has risen by four percentage points since the previous survey. Several emerging-market currencies rose sharply in global importance. The Mexican peso and Chinese RMB made it into the top ten for the first time.

Today, offshore RMB centers have been established in Hong Kong, Singapore, Taiwan, London, Paris, Frankfurt and Luxembourg, and at least 40 central banks from around the globe have allocated partial reserves to the currency. Recently, the People's Bank of

China signed a high-profile currency swap agreement with its European counterpart, the European Central Bank, adding to the list of 23 territories with such agreements in place with China. Still RMB is not leading currency but as we can see the dynamics of its presence in international trade is striking.

RMB climbing towards the major ten currencies used in international trade does prove the progress. However it was not without significant support of Chinese authorities. One of most important is bilateral agreements for trade settlements (swap agreements) in RMB arranged by central banks and PBoC. Then the particular banks were designated to carry out the transactions.

Presented below is the share of major world currencies used in international trade operations.



Source: The Economist

Until June 2014, China had signed 23 bilateral currency swap agreements (BCSAs) with other economies. The main purpose of signing BCSAs is to strengthen financial cooperation and to boost bilateral trade and investment. However, since China accelerated its push on RMB internationalization, BCSAs have been regarded as a channel for providing foreign central banks the RMB liquidity to facilitate bilateral trade settled in RMB and promote broader use of Chinese currency.[4]

China's bilateral currency swap agreements, 2008–13

Date	Counterparty	Size (RMB billions)	Maturity
09/10/2013	The EU	350	3 years
12/09/2013	Albania	2	3 years
09/09/2013	Hungary	10	3 years
22/06/2013	The UK	200	3 years
26/03/2013	Brazil	190	3 years
26/06/2012	Ukraine	15	3 years
22/03/2012	Australia	200	3 years
20/03/2012	Mongolia	10	3 years
21/02/2012	Turkey	10	3 years
08/02/2012	Malaysia	180	3 years
17/01/2012	the UAE	35	3 years
23/12/2011	Pakistan	10	3 years
22/12/2011	Thailand	70	3 years
13/06/2011	Kazakhstan	7	3 years
19/04/2011	Uzbekistan	0.7	3 years
18/04/2011	New Zealand	25	3 years
23/07/2010	Singapore	150	3 years
09/06/2010	Iceland	3.5	3 years
02/04/2009	Argentina	70	3 years
23/03/2009	Indonesia	100	3 years
11/03/2009	Belarus	20	3 years
20/01/2009	Hong Kong	200	3 years
12/12/2008	South Korean	180	3 years

Note: 1. all swap agreement are extendable upon the agreement of both parties.
2. 2013 is up to October.

Source: the PBoC.

After; Cui Yumng; *The internationalization of the RMB"*…:

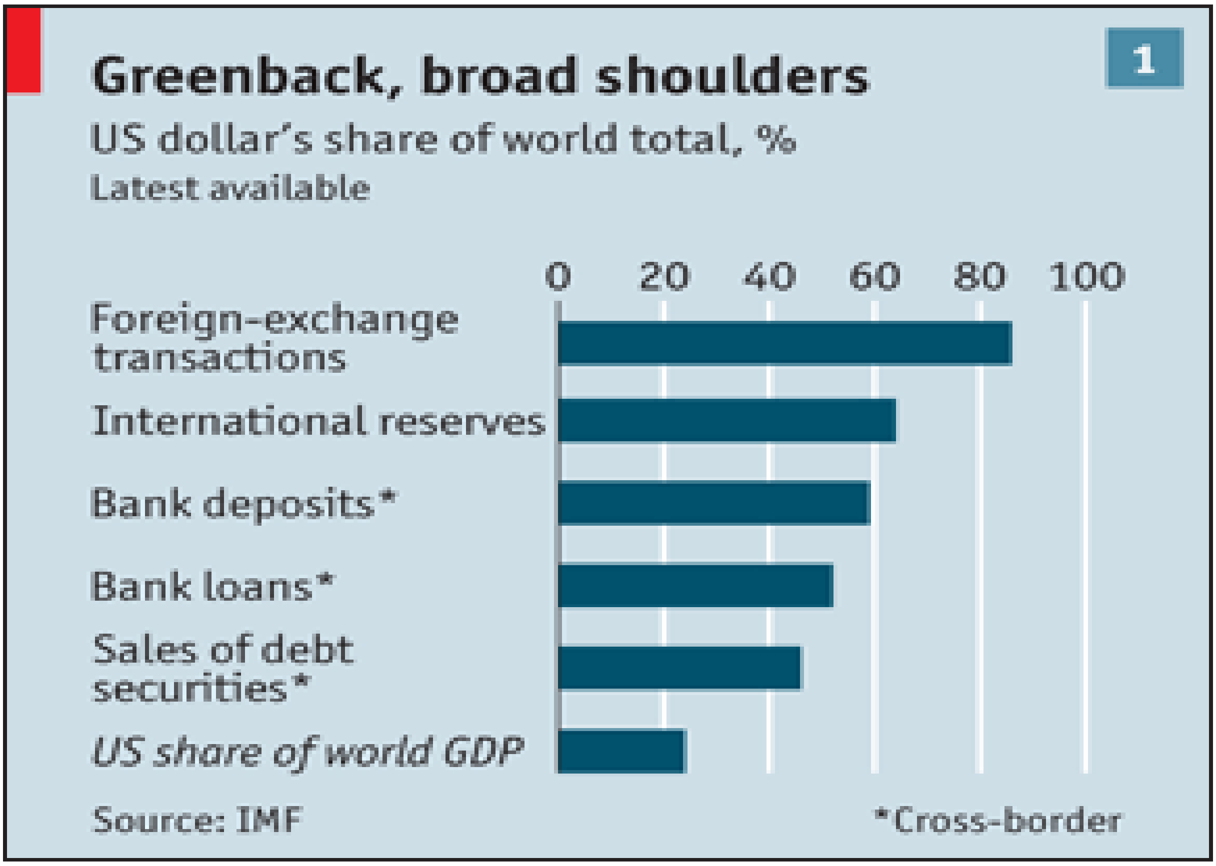
The biggest size of swap agreements corresponds with the size of bilateral trade between countries or regions in question. Significant is the role of European Union EU (RMB 350bn) where, aside of a deal with European Central Bank ECB, there are separate agreements with United Kingdom UK (RMB 200bn), and recently (March and June 2014) signed swap agreements with Germany (Bundes Bank) and United Kingdom extra (Bank of England) both RMB 200bn.

Before 2006, RMB was pegged at a fixed rate to the US dollar but it now trades directly with seven currencies, in a range of two per cent either side of the official rate set by the Chinese central bank. The US dollar and the Japanese yen were the first and Australian dollar started direct trade early 2013 year. The latest addition to the RMB pegging was the British pound June 2014, and the first in Western Europe. In the past, individuals and institutions with

[4] Major state owned banks; Bank of China, Industrial & Commercial Bank of China Ltd., Bank of Communications Co., Agricultural Bank of China Ltd., Bank of China Ltd. and China Construction Bank Corp. were designated to carry on operations in Europe.

British pounds could not directly buy the Chinese currency, and instead had to buy another currency like the US dollar, and then cpc RMB.

Still as it is shown below US dollar is dominant in foreign exchange transactions leaving RMB far behind.



Source: The Economist

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RMB as a Unit of Account

Deep and liquid domestic financial markets are a precondition for any currency to go global. China's economy has grown dramatically but its financial markets have remained underdeveloped and mostly closed off from the rest of the world. Still in Asia region Hong Kong remains most active and recognizable place.

While 62 percent of RMB-based payments outside of China already take place in London, the new agreement in 2014, London's position as a preeminent non-Asian RMB currency clearing hub was clearly established.

Previously, London-based entities were required to rely upon Hong Kong's offshore RMB infrastructure to obtain RMB liquidity and clearing services and, London's Standard Chartered Bank teamed up with the Agricultural Bank of China to this effect.

Prior to the establishment of this partnership, Standard Chartered Bank had developed an RMB globalization index covering Hong Kong to measure offshore RMB growth – adding Singapore and London in 2011, and Taiwan in 2013.

Currently, London-based asset managers are the only ones in the West permitted to invest directly in Chinese stocks and RMB-based shares through the RMB Qualified Financial Institutional Investor RQFII program established in 2013, with an initial quota of nearly US$14 billion. Partly because of this, London has become an increasingly popular jurisdiction for Chinese investors seeking to move RMB-based funds to a European destination.

Chinese government designated China Construction Bank as the official clearing bank for Yuan-denominated transactions in Britain and agreed to launch direct trading between the pound and the Yuan in China. The designation of a clearing bank creates a channel for Yuan held in Britain to flow into Chinese capital markets, creating London as a trading centre for the currency. Other cities such as Frankfurt and Singapore have also been awarded clearing banks, but London already controls nearly 60% of Yuan-denominated trade payments between Asia and Europe, and this agreement will shore up its position.[5]

Hong Kong is evidently most recognized hub dealing with Chinese international financial operations in Asia. The issuance of Dim-Sum bonds raised from around 10bn US$ in 2010, up till over 180bn US$ in 2013, and nowadays it has dozens of issuances a month.

Still internal, Midland China financial market is still underdeveloped. It is the subject of experiments "CHINESE WAY", meaning authorities acts by choosing enclaves regionally and by choosing selected institutions as players.

As a regional enclave example the Shanghai Free Trade Zone SFTZ may be perfect example. Launched in September 2013, the Shanghai Free Trade Zone (SFTZ) is poised to fundamentally transform the status quo of the offshore RMB market. Details of the preferential policies offered to investment enterprises in the FTZ have gradually come into focus through a series of circulars issued by the People's Bank of China (PBoC) and State Administration of Foreign Exchange (SAFE). Owing to their importance, they are listed here in detail:

1. Foreign exchange registered capital can be freely converted into RMB by a foreign-invested enterprise established in the Zone, without having to obtain bank approval as previously. The converted capital must be kept in a designated RMB account and used within the business scope of the enterprise.
2. The FTZ allows for a broader cash-pooling scheme — a transaction in which banks facilitate multi-national companies in repatriating their profits to an offshore headquarters

[5] The Economist; June 21,2014

via intra-company loans. Doing so requires that the onshore enterprise is registered in the FTZ and affiliated with the overseas loan recipient. Companies established in the Zone can loan up to 50 percent of their total shareholder equity to their offshore entities. Outside of the FTZ this is limited to 30 percent.

3. Companies established in the FTZ can borrow offshore RMB of an amount equal to their paid-in registered capital multiplied by a “policy index” published by the PBoC. The borrowed funds must be used inside the FTZ or overseas and cannot be invested in securities or derivatives, or as part of entrusted loans.
4. FIEs specifically licensed for equity investment can convert their registered capital into RMB and send this to their portfolio companies, rather than using forex as previously. All foreign-invested enterprises in the Zone are permitted to use their converted registered capital to make onshore equity investments, e.g. in the Shanghai futures or securities market.
5. Financial leasing companies in the Zone, including foreign-invested financial leasing companies, are freed from quota restrictions on foreign lending and can open special foreign-lending accounts at local banks. This type of account can be used to retain leasing revenue from overseas and is subject to a simplified settlement procedure.
6. Multinational corporations may open international accounts to directly transfer foreign capital between the FTZ and offshore accounts. The amount of transferable capital is subject to a quota based on the total foreign debt held by the company and its related entities. Companies may also set up domestic accounts in the Zone for sending and receiving forex payments between their domestic affiliates. Funds may be transferred between the two types of account within a stipulated quota.
7. Banks established in the zone do not need approval from the local banking authorities before setting up branches or appointing executives in the Zone. The 75 percent loan-to-deposit ratio required of banks elsewhere in China is being gradually phased out for banks in the Zone to be replaced by independent risk management systems.

With the launch of the SFTZ, the RMB has certainly turned a corner in terms of internationalization, yet significant obstacles remain before it can truly outgrow its reputation as a vehicle for speculation. Offshore deposits held in RMB, for example, account for less than 1 percent of global RMB deposits. The proposed establishment of an offshore RMB clearing house in North America would do a great deal for deepening the market for RMB investment products.

It is important to establish developed and relatively structured financial markets, including stock markets, bond markets, and money markets. But China’s financial markets are still small and shallow compared with those in developed countries and even with those in some emerging economies. Another experiment recently introduced is, allowing 10 provinces and cities to sell bonds on their own credit later 2014, introducing the country’s first Western-style municipal bonds as it broadens the financial choices for local governments. The list will cover six provinces, including the wealthy eastern Zhejiang, Jiangsu and Shandong, southern Guangdong and two less-developed provinces in central and western China. The four cities are Beijing, Shanghai, Shenzhen and another city on the country’s eastern coast. The central government will announce the plan soon and bonds will likely be issued in early July, the person said. [6]

China needs to allow more foreign institutional investors to participate in domestic financial markets to improve their efficiency and effectiveness. Equally important, establishment of financial risk management mechanisms and strengthening the rule of law are crucial for China regulating its relatively immature financial markets effectively. Additionally, participation in China's financial markets needs to be diversified. Currently, the majority of investors in China's bond markets are domestic institutions. Individuals and foreign institutional investors are excluded or constrained by investment quotas. Diversity of investors will improve efficiency and liquidity of financial markets. Thus, China needs to remove gradually the constraints on participants in its financial markets.

Choosing Participating Institutions – "China Way"

To deepen China's securities market and to diversify the types of investors, China launched the Qualified Foreign Institutional Investor (QFII) program in 2002. Under this program, foreign investors approved by China securities Regulatory Commission (CSRC), can access China's stock markets. Each QFII is granted a quota by China's State Administration of Foreign Exchange. In December 2011, the CSRC announced new RMB program called RQFII, which allow QFIIs to invest in Mainland securities markets within a certain quota using RMB funds raised in Hong Kong. Additionally, the RQFII can invest in China's interbank bond market, which was a significant step forward in widening investment channels for offshore RMB. The initial total investment quota was RMB 20 billion. In April 2012, the CSRC increased the quota to RMB 70 billion. What's more, the CSRC stated that the RQFII could be increased in accordance with the needs of China's financial market openness and RMB internationalization. It is widely believed that widening investment channels for offshore RMB recycling to the Mainland is critical for boosting RMB use in trade settlement and financial transactions. Thus, the RQFII program is an important measure to facilitate RMB internationalization.

Still the offering is very limited, global investors have access to $56 trillion of American assets, including bonds and stocks. They can also get their hands on $29 trillion of EURO-denominated assets and $17 trillion of Japanese Yen. But when it comes to Chinese assets, just $0.3 trillion ($300 bn) or so are open to foreign investors. This puts the RMB on a par with the Philippine peso and a bit above the Peruvian nuevo sol.[7]

Roadmap for RMB Becoming an International Currency

There are possible scenarios for future development:

1. From the perspective of functions of the RMB as an international currency:

[66] Wall Street Journal ; May 18, 2014
[7] The Economist ; June 21,2014

Stage one - The RMB as a settlement currency in trade and financial transactions that is mostly performing via swap agreements
Stage two - The RMB as a denomination currency in trade and financial transactions - very limited and performed via RQFII (RMB qualified financial institutional investors)
Stage three - The RMB as an international reserve currency, in infant stage

2. From the perspective of scope of RMB use in the global financial system
RMB use in cross-border trade and financial transactions, RMB regionalization and eventually RMB globalization

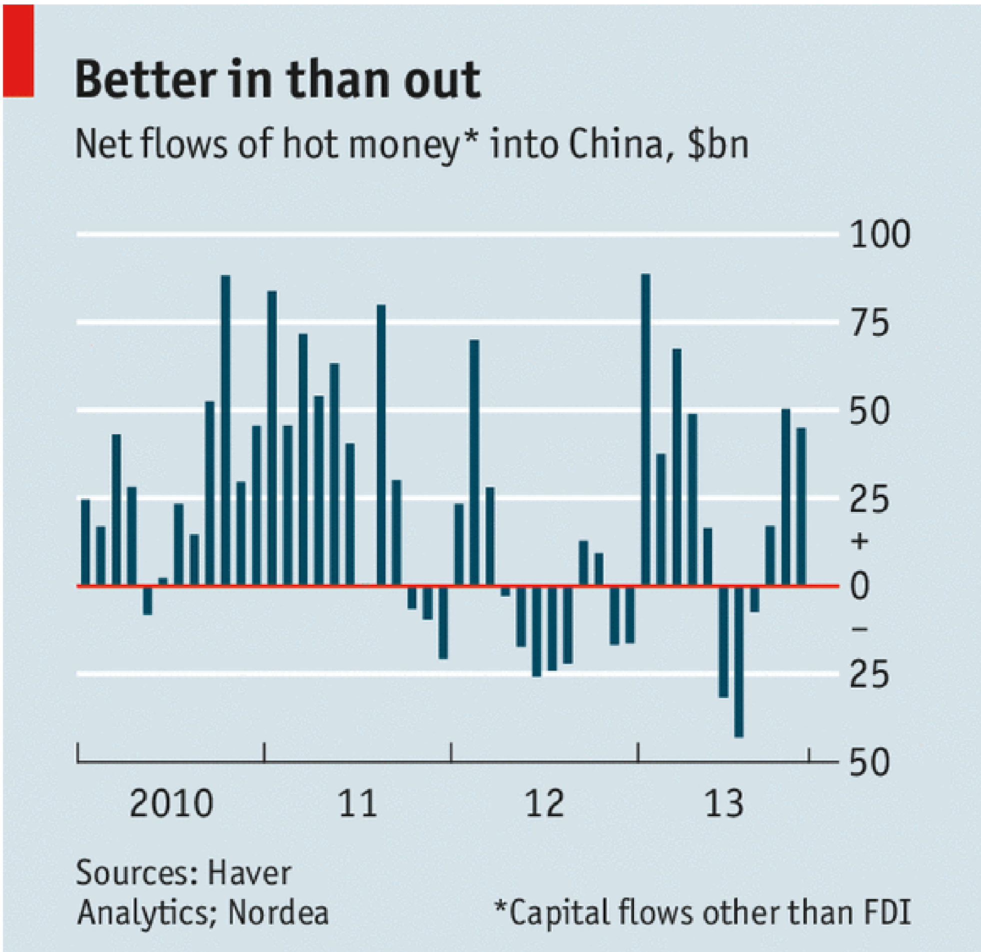
Interesting movements towards regionalization of RMB is China initiatives towards establishments of regional international financial institutions or banks. First was Chang Mai Initiative together with ASEAN , second China is expanding plans to establish a global financial institution to rival the World Bank and the Asian Development Bank, which Beijing fears are too influenced by the US and its allies. In meetings with other countries, Beijing has proposed doubling the size of registered capital for the proposed bank to $100bn. So far, 22 countries across the region, including several wealthy states in the Middle East, which China refers to as "West Asia", have shown interest in the multilateral lender, which would be known as the Asian Infrastructure Investment Bank- AIIB. It would initially focus on building a new version of the "silk road", the ancient trade route that once connected Europe to China.[8]

Weakness of Currency Reserves

China's foreign exchange reserves reached an extraordinary US$ 3.66 trillion as of October 1, 2013, up from about US$ 2 trillion in July 2009. Latest priority is to curb growth of a foreign reserves swell that has gotten too big for its own good. There has to be a proper movement towards setting the reserves to work through efficient investment. [9]

Cautious attempts to ease the capital flows attracted speculation (hot money flows), that potentially destabilized Chinese fragile stability. See picture below. This forced intervention of Chinese Central Bank- PBoC, leading to devaluation of RMB at the first and second Quarter of 2014. [10]

[8] Financial Times; June 24 2014
[9] Through couple of Souvereign Funds such as CIC (China Investment Corporation)Statement of People's Bank of China -PBoC- Deputy Governor Yi Gang holding a dual position as administrator of the State Administration of Foreign Exchange (SAFE)as well.(*English.caixin.com*) Nov25.2013
[10] Shanghai and other FTZ occurred not to be sufficiently impregnate , thus hot money flows and subsequent PBoC intervention. *Caixin agency*.



Source; The Economist2014

Recent Development

The Yuan remained the seventh most used currency for global payments in May2014, transaction services organization SWIFT (Society for Worldwide Interbank Financial Telecommunication) said, although it accounted for only 1.47 percent of the total.[11]

Chinese authorities act very cautiously and use a sophisticated direct and indirect measures and instruments. With respect of internal actions, tested methods are broadly applied during the process. As usually with reforms in China selected regions and selected institutions were chosen.

In August 2013, Shanghai approved a pilot program that allows foreign hedge funds to raise money from Chinese to invest in secondary markets overseas. Each of the six hedge funds approved is allowed up to US$ 50 million. Investors can choose to put money in mutual funds, hedge funds, private equity assets or real estate markets overseas. The State Administration of Foreign Exchange issued a new regulation in May that simplified cross-border guarantees and allows for more methods of overseas investment.[12]

[11] China Spectator, after AFP 24,June 2014

[12] China's high-net-worth individuals (HNWI) have total wealth of US$ 4.4 trillion as of this year, but only 5 percent was outside the country, data from China International Capital Corp. Ltd. (CICC) shows. HNWIs worldwide invest about 24 percent of their assets outside their home region.

Activities abroad concentrated on establishment divisions of Chinese banks acting as clearing houses for RMB transactions. In June 2014 China Construction Bank - CCB – was nominated as the official clearing bank for RMB trading operating as a branch, rather than a subsidiary, would allow CCB London to offer services on a much bigger scale, backed by its parent's capital and liquidity. That would allow it to expand in syndicated lending, advisory services for infrastructure projects and M&A, and to venture into asset management.

China will designate a clearing bank in Sydney for overseas trading of its Yuan currency, a top Australian official said, on June 26th 2014, as Beijing seeks to make the tightly-controlled unit more international. The Australian financial capital would follow London and Frankfurt as a location for a Chinese bank to clear transactions in Yuan, also known as the RMB.

China's desire to create regional financial institution AIIB, that it could influence, reflects Beijing's dissatisfaction at western dominance of the multilateral bodies. Chinese leaders have wished a greater power in institutions such as the World Bank, International Monetary Fund and Asian Development Bank but changes to reflect China's increasing economic importance and power have been rather slow.[13]

Conclusion

There are three fundamental factors determining whether a currency could become an international currency: size of home economy, confidence in the value of the currency, and the development of its financial markets.

China is the world's second-largest economy and largest exporter. However its currency has still very limited international use. Beijing's push for internationalization has increased the proportion of China's trade that is settled in RMB. But RMB seems to have reached only about 14 per cent of the country's total trade. In the international payment system, RMB is not to be seen. RMB still hardly performs money functions in global scale, particularly as a reserve currency or unit of account. However a majority of respondents of Economist Intelligence Unit survey agree RMB will one day surpass the US dollar as the world's major reserve currency. Fifty-three per cent of respondents say that RMB will one day surpass the dollar as the top currency in international holdings of foreign-exchange reserves. Within China there is more optimism: 62% see a redback (colloquial name for RMB as oppose to greenback US$) expansion on the horizon, compared to 43% of those outside China. But the view is not even. One in five (21%) of China-headquartered officials say that they do not expect China ever fully opens its capital account, compared with only 2% of foreign respondents[14] .

CICC defined a HNWI as a person with more than 60 million Yuan, or about US$ 9.7 million, in investable assets (english.caixin.com), June25.2014

[13] .Financial Times ; http://www.ft.com/cms/s/0/b1012282-fba4-11e3-aa19-00144feab7de.html#ixzz35pmx19SB
The AIIB would provide a direct challenge to the Manila-based ADB, which China feels is too influenced by its rival Japan. If it was established with $100bn, as proposed by Beijing, the AIIB would already be about two-thirds the size of the $165bn ADB
[14] EIU - Survey ON RMB internationalization, January 2014.

In 2013, British Chancellor of the Exchequer George Osborne predicted that RMB would "become almost as familiar as the dollar" within his lifetime. Today, RMB is variously reported to be the eighth or ninth most traded currency worldwide and was used in US$120 billion worth of transactions in 2013.

It is the Chinese authorities' appetite for openness, rather than the private sector's appetite for Chinese assets, that will set the trajectory of the RMB trade for years to come. But even small steps towards liberalization can result in irresistible pressure to move faster. A premature opening of the capital account could unleash damaging financial flows and undermine the stability of China's economy.

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