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Research Report

RMB Internationalization Reprot 2019 —— High-quality development and high-level financial opening up (Press release)

International Monetary Institute, Renmin University of China

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RMB INTERNATIONALIZATION REPORT 2019

——High-quality development and high-level financial opening up

(Press release)

International Monetary Institute, Renmin University of China

July 6, 2019

Content

Part I Preface

RMB internationalization is the process in which RMB serves as an international currency in foreign economic activities, and develops into a main currency for pricing and settlement and a major international reserve currency in several years. In the static sense, it is a status and outcome of RMB's use as an international currency; in the dynamic sense, it involves the whole process of RMB's becoming a main international currency. Against the backdrop that US dollar dominates the global reserves while other major currencies catching up, RMB needs to undergo a long and tortuous process that calls for continuous hard work, in order to upset the international market's inertia and path dependence on US dollar and the euro, develop a widespread network effect, and ultimately achieve a monetary status that matches China's economic and trade strength.

The International Monetary Institute of Renmin University of China issues the "RMB Internationalization Report" annually from 2012, faithfully recording the development footprint of RMB internationalization and conducting in-depth research of major theoretical issues and policy hotspots, so as to provide a theoretical basis for promoting the practice of RMB internationalization. The research team put forward the RMB Internationalization Index (RII), a comprehensive and quantitative indicator that objectively describes the development of RMB's dynamics as an international currency in trade settlement, financial transactions and official reserves, enables the accurate comprehension of the acceptability of RMB in international economic activities and facilitates comparison between RMB and other major currencies, thus laying a solid technical foundation for analyzing RMB internationalization, home and abroad.

At the end of 2009, RII was only 0.02, which almost means that RMB was not used in the international market at all. By the end of 2018, RII reached 2.95%, marking a great progress in merely several years. So far, the share of RMB in global trade settlement is 2.05; the share of RMB in direct investment, global credit, bond and note transactions, etc., accounts for 4.90%; the share of RMB in global official foreign reserve assets is 1.89%. Beginning from the first RMB pricing and settlement pilot program for cross-border trade in 2009, RMB internationalization has gone through its first decade. In such a short period of time, RII has witnessed a sharp increase, a plunge and a recovery. RMB has been officially incorporated into the SDR currency basket, and has gradually developed into a reliable choice for the global financial market and the global official foreign exchange reserves.

The Report at 19th CPC National Congress points out that “China’s economy has been transitioning from a phase of rapid growth to a stage of high-quality development. This is a pivotal stage for transforming our growth model, improving our economic structure, and fostering new drivers of growth. It is imperative that we develop a modernized economy.”High-quality development has become a clear direction and inevitable requirement of China’s economic development.

The theme of the RMB Internationalization Report 2019 is “high-quality development and high-level financial opening up”, because high-quality economic development determines the future of RMB internationalization and high-level financial opening up can facilitate high-quality economic development. The research team has mainly completed the following work: first, it made clear the content of high-quality economic development in modern China, namely high efficiency, steady and orderly development and inclusiveness and shared benefits. Second, it demonstrates the logistic relations between high-quality development, high-lelvel financial opening up and RMB internationalization in a systemic manner and expound such relations from the perspective of theoretical literature review, historical experience and empirical study. Third, it stresses that further reform is the necessary precondition for high-level financial opening up, and the current work should focus on specific issues such as consolidating the micro foundation with enterprises and financial institutions as the core, deepening financial market development, improving financial infrastructure and sharpening financial management capacity in an open market.

High-quality development is endowed with different connotations in different historical stages and against different historical backgrounds. In modern China, high-quality development has its connotation in three dimensions: first, high-quality development must have high efficiency. To improve efficiency is the eternal pursuit of economic development. We must pool strength from multiple channels, including technological advance, market competition and financial support, to reduce the cost of unit economics. Second, high-quality development should be steady, orderly and risk controllable. In economic development, we must strike a balance between efficiency and steadiness, and in particular, hold the bottom line of preventing systemic financial risks. In other word, economic fluctuations must stay within an acceptable range and financial risks must be under control, for possible out-of-control risks may result in crises, suspend economic growth and undermine development opportunities. Third, high-quality development is inherently inclusive. It put more emphasis on equal and balanced development opportunities and the reasonable sharing of economic development outcomes. Evidently, high-quality development is open and inclusive rather than self-reclusive or selfish. High-quality development can only be achieved when we strive to realize the sense of gain and happiness of all mankind and the whole society, share the outcomes of economic growth and promote social equality, economic coordination and sustainable development.

High-quality development determines the future of RMB internationalization in two dimensions:

First, China's economic transition to a high-quality development stage can lay a solid foundation and create sustained momentum for RMB internationalization. High-quality development can enhance the overall national economic strength and safeguard steady RMB internationalization. To be specific, efficient economic development can push forward economic restructuring and industrial upgrading, elevate the position and competitiveness of Chinese enterprises and products in the global market, boost the confidence of non-residents in China's economic strength and RMB's purchasing power and increase their willingness to hold RMB assets. Steady and orderly economic development can absorb external shocks, guarantee overall sound economic performance and avoid major economic upheavals; it can also prevent disruptive systemic financial crises, maintain market liquidity, help holders and potential investors of RMB assets to form stable expectations and aid RMB to exercise the functions of an international currency, including trade pricing, financial transaction and value storage. Inclusive and shared economic development can help create a fair and harmonious social and economic environment, invigorate market vitality, and achieve sustainable high-quality development. This kind of development combines China with the world by seeking all possible international cooperation opportunities and opens the vast Chinese market. Such an open attitude that welcomes all countries to take advantage of China's economic growth is the best endorsement for RMB internationalization.

Second, high-quality economic development grants RMB internationalization distinct characteristics of the times and Chinese features, and presents these new elements to the whole world: RMB internationalization is efficient, sound, orderly, inclusive and shared by all. RMB internationalization is a natural evolution of the "local currency first" principle based on the internationalization of the real economy. Local cross-border enterprises with global competitiveness and influence can lead China's foreign trade, investment and financing, and give priority to local currency in settlement under the same facilitating conditions, then RMB internationalization driven by high-quality development will certainly disseminate the "factors of efficiency" to the whole globe. RMB internationalization can safeguard national residents from exchange rate risks, and offshore RMB market development is conducive to the hedging and appreciation of RMB assets for non-residents. Moreover, RMB's inclusion into the SDR basketcan inject "soundness" into the situation where the US dollar dominates the global reserves while other major currencies are catching up, and alleviate the pressure from global economic imbalance and a systemic global financial crisis. RMB internationalization reflects China's good will and historic responsibility to provide global public goods. Inclusive economic development is the intention of RMB internationalization, and RMB internationalization is the currency carrier that pass on the "inclusive factors" to the world. When the world better understands the efficiency, soundness and inclusiveness of RMB internationalization, their temporary doubts and antipathy will be replaced by affirmation and welcome. This will fundamentally determine whether we can realize a currency status suited to China's economic and trade position.

High-quality economic development requires a more compatible financial system, for financial opening up at a higher level is conducive to high-quality economic development. First, financial opening up at a higher level can improve economic and financial efficiency at home, and exert a positive impact abroad. Reducing barriers for international capital flow can help increase domestic capital accumulation, promote technological innovation, reduce agent cost, improve governance and add to the production and operational efficiency of enterprises; it can facilitate domestic financial market development, sharpen competitiveness of local financial institutions and enable finance to serve the real economy; it enhances economic and financial ties between home and abroad and creates mutually beneficial impact with financial policy spillover and the "going global" of capital and institutions. Second, financial opening up at a higher level can strengthen economic and financial ties between home and abroad and enable domestic enterprises and institutions to better their risk management and anti-risk capacity. Financial opening up to the world can help realize diversified investment portfolios, improve the financing structure, promote orderly competitions among financial institutions and optimize the interest rate and exchange rate formation mechanism. If the cross-border capital flow risks in opening up are managed properly, we can increase the soundness of investors, enterprises, institutions and even the whole financial system. As China integrates into the world with a more open attitude, the soundness of the Chinese economy and finance will be transferred to other countries through the spillover effect. Third, financial opening up at a higher level can enhance the inclusiveness of economic development and enable more domestic and global citizens to benefit from China's economic growth. Financial opening up can diversify financial supply, promotes financial technological advance, reduce financing constraints on SMEs and innovative enterprises, facilitate the development of inclusive finance and guide the allocation of financial resources in a more reasonable and fair manner. The “Belt and Road Initiative” is dedicated to developing a community of shared destiny for all mankind, in which China provides public goods for the world. The initiative embodies China’s call for inclusive economic development and represents a new-type globalization with distinct inclusive features.

Financial opening up is a two-way process, and it will inevitably impact the domestic financial market and economic operation. History proves that the financial opening up has a huge impact on national economic development and currency internationalization. If the country rashly choose to open up without mature conditions, there might be a negative impact on microeconomic units, or even severe financial crises. Therefore, the country should design the path and tempo of financial opening up based on its reality. For instance, the UK created an unprecedented open and free financial environment to attract global capital when its economic power was declining; Germany took slow but steady steps to push forward financial opening up; Japan rapidly completed financial opening up under the pressure from the US. A country also need mature local enterprises and financial institutions with huge anti-risk capacity to handle the impact from opening up: the UK applied separate operation in the financial industry in a long-term, but at the initial stage of the “Big Bang” reform, a large number of local securities firms was acquired by foreign capital and the country lost control of them; the US encourages enterprises and financial institutions to invest overseas and has created a batch of competitive cross-border enterprises and banks; the traditional versatile banking system stands firmly in place and has ensured domestic economic stability during financial opening up. Financial opening up at a higher level must be gradually achieved in further reform, and this is an inevitable requirement of a financial system suited to high-quality economic development. At present, the foci of the financial opening up should be as follows: first, financial opening up at a higher level should be grounded in sound real economy, and the micro foundation with enterprises and financial institutions as the core should be consolidated. We should further strengthen the financial system’s capacity to serve the real economy, promote benign interaction between financial institutions and enterprises and increase enterprises' production efficiency and comprehensive competitiveness. We should effectively improve risk management and compliance sense of enterprises and financial institutions, and enable them to actively tackle risks during financial opening up. Second, financial opening up at a higher level should be achieved based on a highly developed financial market. We should further reform the domestic financial market and make it more open. Developing the financial market can enhance the market's efficiency in allocating financial resources, and strengthen the market's capacity to absorb external shocks as well. The currency market, the bond market and the forex market should be the main foci of financial opening up. Third, financial opening up at a higher level requires compatible financial infrastructure to provide necessary technical and institutional support. We should further develop financial infrastructure with the RMB payment and settlement system as the core, and pay equal attention to the development of "soft infrastructure" such as financial systems and financial standards. Fourth, financial opening up at a higher level should be safeguarded by complete financial management. We should never cease to develop financial management capacity suited to our opening up level, so as to protect the national economic and financial safety and industrial advantages. We should actively optimize the negative list and manage, safeguard and coordinate foreign investment management based on law. We should incorporate cross-border capital flow management into the macro-prudential policy framework to emphatically monitor and manage cross-border capital flow risks and hold the bottom line of preventing systemic financial risks.

Since last year, the US has implemented a series of extreme policies to pile pressure on China in the name of a trade war, attempting to diminish China's development opportunities. Such policies have brought great difficulties to the external environment. Nevertheless, China stand resolute in deepening domestic reform and further opening up to the world. At the Boao Forum for Asia, President Xi Jinping declared China's strategic choice of opening up, and Governor Yi Gang elaborated on the 11 specific measures and timetable for further financial opening up. The China International Import Expo that took place several months later was the first national-level expo with import as the theme. The year 2018 marked the 40th anniversary of China's Reform and Opening Up, and all these events prove that China has expressed a clear message and resolution that China will actively and fully open up its vast domestic market.

The global economy and the international financial system is undergoing profound changes, and in the center of this system, the global currency landscape is experiencing subtle adjustments. Unlike 40 years ago, China is no longer a bystander, but a witness, or even the advocator and impeller of such changes. As history moves ahead, we will focus on our tasks, promote high-quality economic development with financial opening up at a higher level, seize the momentum of RMB internationalization and contribute the Chinese strength to a better future for all human beings.

Part II RMB internationalization index

2.1 The current situation of the RMB internationalization index

2.1.1 RMB internationalization index rebounded strongly and reached a new height

In 2018, with rising protectionism, increasing global economic downside risks and slowing growth momentum in the external environment, China's economy achieved a good performance. GDP grew by 6.6% on a yearly basis, and the overall economic operation was stable, with steady progress. RMB exchange rate remained stable, with distinct fluctuations in two directions; the international balance of payments moved closer to equilibrium, and macro-prudential regulation yielded fine effects. In areas of trade denomination and settlement, financial denomination and transactions and international reserves, the usage of RMB rebounded, and RMB's position in the global currency system was further consolidated. After a round of fluctuation, RMB internationalization stabilized and accelerated. RII bottomed out from 1.90 at the end of the 3rd quarter of 2017, and reached 2.95 at the end of 2018 (Figure 1), a sharp increase of 95.8%. Official statistics from SWIFT indicate that RMB is now the 5th largest payment currency in the world.

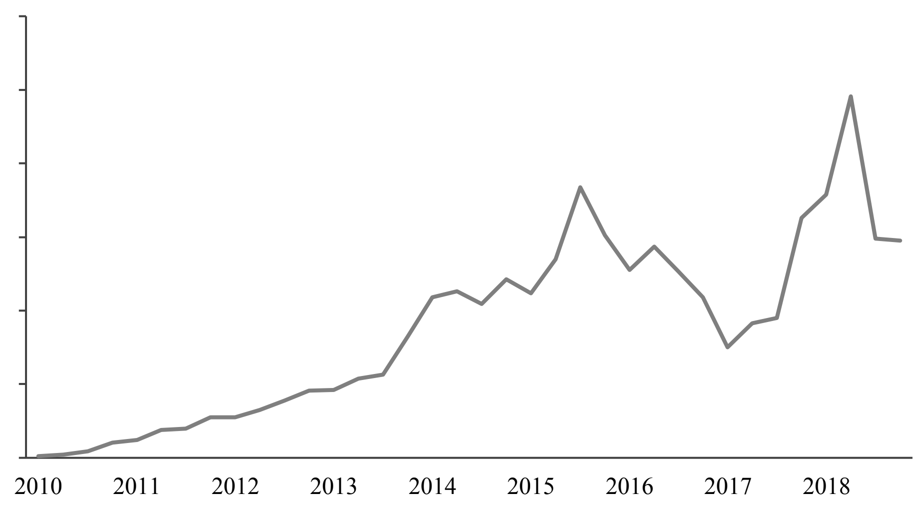

Figure 1 RMB Internationalization Index

2.1.2Exponential growth of transactions in RMB under the capital account pushed forward RMB internationalization

Over the past decade, the opening up of China's capital account made prominent progress, and the use of RMB under the capital account was more active. On one hand, international financial denomination and settlement became a main engine for RII's growth. In the 4th quarter of 2018, the comprehensive indicator of RMB usage in international financial denomination and settlement reached 4.90%, a qualitative leap forward on the basis ten years ago. On the other, international financial denomination and settlement was sensitive to market reactions which were the source of RII's fluctuations.

In 2018, the total volume of global RMB loans and deposits bottomed out and stabilized. Overseas RMB loan volume grew by 14.8% annually, and RMB deposit volume in main offshore markets decreased by around 1% annually. The use of RMB-denominated global bonds pulled back, RMB-denominated international bond and bill balance was 107.549 billion yuan, accounting for 0.44% of the global total and a decrease of 0.15% from 0.59% in 2015. As China accelerated its pace to integrate into the global economic system, RMB direct investment grew rapidly and aggregated 11.06 trillion yuan. In 2018, RMB direct investment volume was 2.66 trillion yuan, a year-on-year increase of 62.8% and 24 times higher than that in 2011.

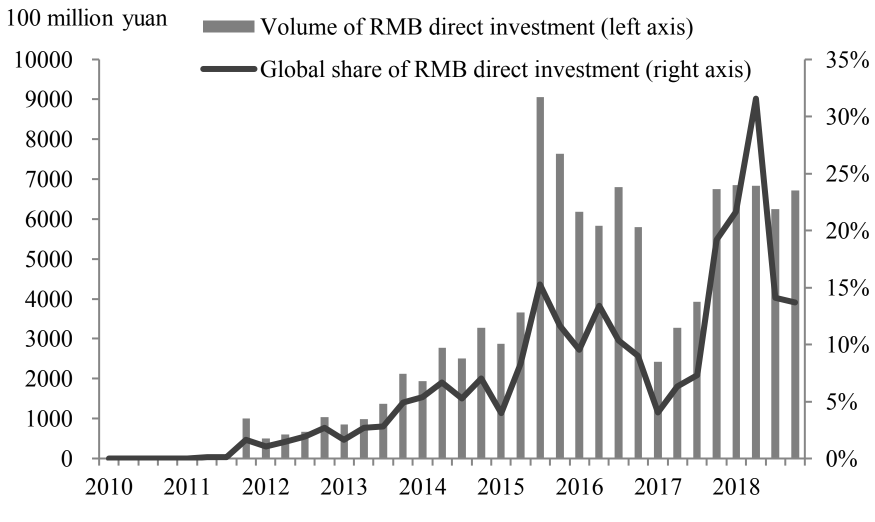

Figure 2 Global Share of RMB Direct Investment

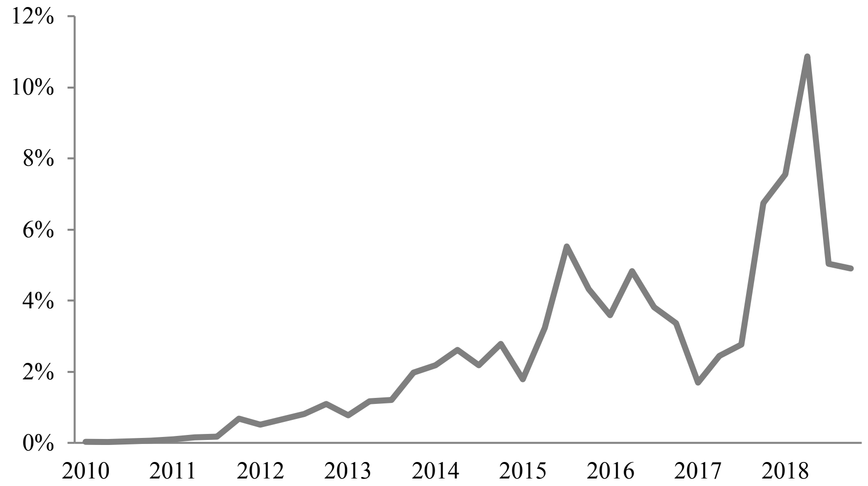

Figure 3 Comprehensive Indicator of RMB Use in International Financial Denomination and Settlement

2.2. Main impetuses for RMB internationalization

Over the past 10 years, RMB internationalization has developed steadily. It embodies the rise of China's economic power and the changes of the global landscape, and it is a result of the market's actions and policies' effects. In 2018, China's macro situation was generally prosperous, the policy environment kept improving, the financial market accelerated to open up, and all these factors supported RMB internationalization to move forward in twists and turns.

2.2.1 China's sound economic growth is a firm foundation for RMB internationalization

RMB internationalization is not China's own wishful thinking, but an inevitable result of China's economic development and rise. In 2010, China surpassed Japan to become the second largest economy and one of the most important trade and investment partners of the world. Against a complicated and challenging global backdrop, China took the initiative and actively adapted to and led the new normal, and deepened the supply-side structural reform. As a result, China's economy improved its quality and efficiency, and China became the stabilizer for the growth of emerging markets or even that of the whole world. From 2010 to 2018, China's GDP growth averaged 7.8%, China's economy accounted for 13% of the world's total and

China contributed to 24% (PPP weighted) of the global growth, ranking among the top. At the same time, China has expanded and deepened its financial market. Global balance of payments remained stable, the RMB exchange formation system was gradually perfected, elasticity of exchange and regulatory capacity improved significantly, which further boosted global confidence in and recognition of RMB.

2.2.2.The need from market development is the endogenous power of RMB internationalization

Over the past 10 years, China deepened reform and opening up, and thus moved towards the international arena and integrated into the global division of labor and the global value chain. China has maintained its position as the largest exporter and the second largest importer. The total import and export volume rose from 2.2 trillion dollars in 2009 to 4.6 trillion dollars in 2018, and China's share in global commodity trade rose from 8.7% to 11%. Thus, China made great contribution to global trade development and the fight against protectionism. China has transformed from a mere foreign capital receiver to a receiver and investor, and has become the largest foreign capital receiver and investor among developing countries. As the global direct investment fell consecutively for several years, the foreign capital China attracted rose against the global trend; China's enterprises went global in an orderly manner, and China's FDI stocks reached 1.94 billion dollars. In particular, China has enhanced bilateral and multilateral cooperation. By the end of 2018, China has signed 17 free trade agreements with 25 countries and regions. The Belt and Road Initiative generated a large number of programs that provided a vast platform for the use of RMB. The need for the use of RMB among microcosmic bodies is thus created, which stretched from the current account to the capital account and dynamically changes according to the market change.

2.2.3 Policy support and infrastructure development is the assistance for RMB internationalization

Following the principle of "serving the real economy and promoting trade and investment facilitation" and based on market needs, the Chinese government has gradually established a policy system for cross-border use of RMB and optimized relevant infrastructure to ensure safe and efficient use of RMB. ThePBoC and relevant departments followed the trend and removed the policy barriers for cross-border use of RMB in an orderly manner. Based on trade facilitation, China gradually lifted the restrictions on direct investment, cross-border RMB capital pool, interbank bond market, RQFII, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and bond connect, so as to give priority to local currency and create effective channels for the use of RMB. In 2018, China accelerated the opening up of the financial market, expanded permission for foreign investment and business scope, further clarified the policy framework of the "panda bond", improved the arrangement for overseas participating banks and settlement banks to enter domestic forex market, expanded the quota of connectivity and listed RMB-denominated crude oil futures to further increase the attractiveness of RMB-denominated assets. At the same time, China accelerated the development of a RMB clearing network covering the whole globe, and 25 overseas clearing banks focused on overseas markets. As the 2nd phase of CIPS completed, it deepened the system functions, began to serve as the main clearing channel and provided infrastructure guarantee for safe, efficient and convenient use of RMB.

2.2.4 The change of the global landscape provided a time window for RMB internationalization

Since the global financial crisis, the systemic disadvantages of the dollar has emerged, the reform of the international currency system has become a consensus, and the currencies of emerging markets are eager to play a bigger role. As the flagship of emerging markets and the largest developing country, China actively fulfillsinternational responsibility, advocates free trade and open development and guarantee stable economic performance and exchange rates, which won universal recognition and response from the global community. Against this backdrop, China actively participated in global governance, promoted local currency denomination and settlement and deepened practice to safeguard its legitimate interests, and gained hard-won development opportunities. In 2015, RMB was included into the SDR through review, which marked a major milestone for China's integration into the global financial system and an important step forward in the global currency system reform. It has injected great energy into the RMB's function for financial transaction and international reserve. In recent years, especially in 2018, the Trump administration took a series of "anti-globalization" actions, which broke the inherent dollar mechanism and commercial and political relations. As a result, an anti-dollar wave emerged globally, and more countries and regions chose RMB in their foreign reserves and use RMB in international trade. This created new opportunities for RMB internationalization.

2.3. Main barriers to RMB internationalization

RMB internationalization is an important part of China's Reform and Opening Up, and a key step for China's integration into the global economic and financial system. Grounded in China's comprehensive strength, RMB internationalization is closed linked with China's rise. At present, it mainly faces four challenges.

2.3.1 Whether China can complete the supply-side structural reform

Competitiveness of the real economy is the fundamental determinant of RMB internationalization. Supply-side structural reform, as a factor for sound real economic development, is the route that RMB internationalization must take. At present, as the global economy enters a cyclical downturn, China's domestic economy is facing severe challenges, with prominent long-term problems such as economic structural imbalance, to-be-upgraded industries, weak innovation capacity and big-but-not strong trade, which curb China's long-term development potential and competitiveness. China should properly expand total demand, firmly push forward supply-side structural reform and expand the areas and space for effective allocation of financial resources, so as to resolve the challenges in the way and provide firm support for RMB internationalization.

2.3.2 Whether China can hold the bottom line of preventing systemic financial risks

RMB internationalization is the opening up process of China's capital and financial accounts, which will break the enclosed environment. The channels and scale of global capital flow will further expand, and the financial market connectivity among countries will improve. Enhancing prevention and management of financial risks is both a key task for RMB internationalization at present and basic safeguard in the future. Therefore, it is of vital importance to carry out financial opening up and risk management at the same time. During the process of RMB internationalization, we should both take active steps and follow the general trend. On the basis of ensuring financial safety and preventing systemic risks, we should loose foreign exchange control, promote trade and investment facilitation and realize the opening up of the capital account in a sound and orderly manner.

2.3.3 Whether China can withstand the test of extreme external pressure beginning with trade frictions

At present, global growth in slowing down, with a challenging external environment and rising protectionism. The trade frictions triggered by Trump administration has exerted a great negative impact on the development of China and even the world. As national strengths changes, the global landscape and rules are changing and fluctuating, games among superpowers are intensifying, and frictions and competitions may spread from trade to investment, S&T, finance and politics. In the future, whether China can withstand external tests, break out from the adverse environment, become a global mainstream, make up for the multilateral system and improve its voice in the global economic and financial arena is key to RMB internationalization.

2.3.4 Whether China can firmly walk on the path of opening up towards the community of shared destiny for all humankind

The community of shared destiny for all humankind is the general concept of China's opening up and a major carrier for the international use of RMB. Since the concept was proposed, it has been enriched with global cooperation ideas and practice such as the Belt and Road Initiative, and gradually recognized by the global community. The concept has contributed Chinese wisdom and plans to the global governance system reform, new international relation development and the formation of a new global order. With the development of this community, international communication has deepened, the concept of openness, cooperation and inclusiveness has been implemented and the global acceptance of RMB will improve.

2.4. Comparison between the international indicators of major currencies

This report draws up the internationalization indices of US dollar, euro, pound and yen in the same method as it draws up the RII (see Figure4). In 2018, the US economy grew vigorously. The new tax law unleashed the consumption potential of citizens and attracted a large quantity of investment; but with trade frictions and multiple interest rate increases, the stock market prospect is deteriorating, dollar international credit growth came to a halt, and the rise of protectionism weighed down the growth prospect of the US and even the world. The internationalization index of the dollar was 51.95, a year-on-year decrease of 0.33%. The Eurozone suffered from sagging economy, with low internal and external demand and private consumers' expenditure growth and import and export growth both falling behind the level of the previous year. However, comparative loose policies supported the global share of Eurobond balance to increase. The internationalization index of the Euro was 25.75, 2.83% higher than last year. The UK's economy is slowing down, and Brexit process was filled with twists and turns and the prospect was unclear. Against this backdrop, the trade settlement and international credit of the pound expanded moderately, and foreign exchange reserve size of the pound remained stable. The financial market fluctuated wildly with the Brexit process. The internationalization index of the pound in this year was 3.98, though 0.16% higher than last year, it was still at a historically low level. In 2018, the Japanese economic growth was sluggish. The rising global trade frictions and the planned consumption tax rises slumped domestic and external needs. However, with a challenging global economic and financial situation, the risk aversion of market players elevated the international position of the yen. As a result, the share of the yen in global foreign exchange reserves surpassed that of the pound, making the yen the 3rd largest reserve currency. The internationalization index of the yen was 4.38, almost close to the figure in the same period of the previous year.

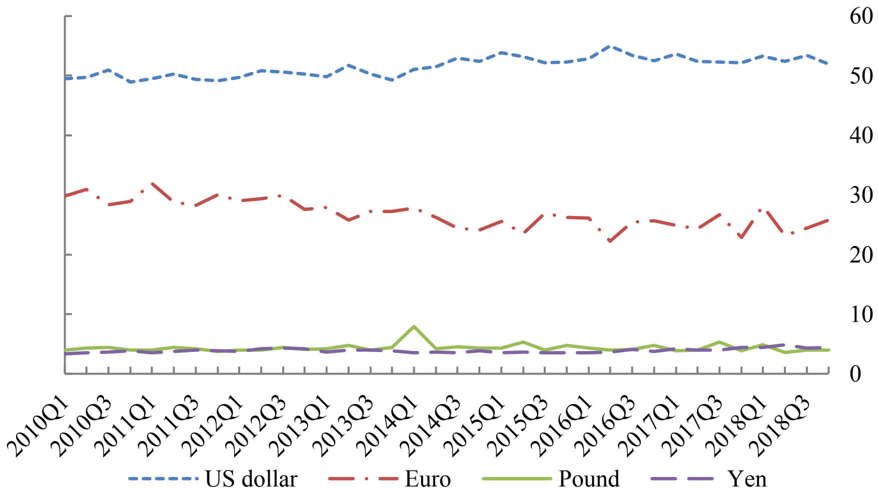

Figure 4 Changes of Internationalization Indices of Major Currencies

2.5. Prospect of RMB internationalization

In the past ten years, RMB internationalization has developed from scratch and expanded from trade to the capital and financial accounts. RMB has grown from a small currency into the 5th largest reserve currency in the world. We have made splendid achievements and accumulated rich experience and lessons in this process. The year 2019 marks the 10th anniversary of RMB internationalization, and is a crucial year for the new round of SDR currency basket review. Standing on a new starting line, RMB internationalization will face new changes, and will walk toward maturity in a balanced manner.

Looking into the future, RMB internationalization faces four changes:

First, changes of the environment. Over the past 10 years, the domestic and external environment has undergone significant changes. Domestically, China's macro economy has entered a transformation period and transferred from high-speed growth to medium-to-high speed growth; the balance of payments is moving from one with surpluses under both accounts to one with a surplus under the current account and deficit under the capital account, and foreign exchange reserve growth has slowed down and even decreased; the financial market is more open and sensitive, price fluctuation has intensified, exchange rates has transformed from unilateral appreciation to two-way fluctuation, and short-term capital flow has transferred from sustained net inflow to rapid inflow and outflow shifts. From the global perspective, global economic expansion has slowed down, protectionism is on the rise, curbing trade and investment; competition among main currencies are more intense. Ten years ago, many called for the reform of the international currency system; now all economies are enhancing the positions of their sovereign currencies. With wide use and a larger global impact, RMB receives more attention and faces more responsibilities and barriers. The changes in the domestic and international environment will influence the size, structure and path of the international use of RMB.

Second, changes of the driving force. The driving force of RMB internationalization is transforming from policy force to market force. In recent 3 years, this transformation has made its appearance, and it will be further deepened in the future. Market need is the endogenous power of RMB internationalization, and policies are the support. In the complicated and changeable domestic and external situation, the policies for cross-border use of RMB is basically in position, with all kinds of channels available, and the market need will be the main determinant of RMB internationalization. In a model driven by the market, RMB internationalization will inevitably move along in twists and turns, instead of in a smooth way. RMB internationalization will stick closely to the market need and play a more active role in the real economic and financial development.

Third, changes in the structure. The international use of RMB is moving from the trade sector to the capital and financial sector. Over the past 10 years, the structure of cross-border RMB use has changed significantly. Trade remains the basic item for cross-borderRMB use, but its share keeps decreasing; the share of items under the capital and financial account, especially non-direct-investment items increased rapidly, and exceeded 60% to become the main sector for cross-border settlement of RMB. In 2019, with China's economic development and financial market opening up, this structure will continue and be consolidated, and RMB investment and financing will be more active. At the same time, it is noteworthy that as RMB investment and financing become the main sector of cross-border RMB balance of payment, cross-border RMB use and the financial system will face more risks and fluctuations.

Fourth, changes of policies. Since 2009, with cross-border trade settlement as an entry point, China has gradually established the policy framework and supporting facilities for cross-border RMB use and accumulated rich experience. Based on the actual situation and existing problems, China's RMB internationalization policy will gradually mature: first, we will pay attention to the effect and stay low. We will follow the principle that finance serves the real economy to support the use of RMB in cross-border trade and investment. We will take a low profile and a cooperative attitude in the intense global competition and steadily promote RMB internationalization. Second, we will make coordinated plans. We will coordinate all departments, enhance planning and top-level design to ensure policy consistency, avoid swings and changeovers. We will use market-based adjustment as the main tool and administrative interventions as supplement rather than merely use administrative interventions. Third, we will make clear and predictable policy environment, focus on reducing or resolving mechanism conflicts between home and abroad, refine relevant policies, pay more attention to expectation guiding and policy communication and ensure market confidence to support RMB internationalization.

Part III The Current Situation of RMB Internationalization

3.1. Cross-border trade RMB settlement

3.1.1 The scale of RMB and the ratio of settlement both stabilized and increased

In 2018, RMB cross-border trade settlement grew steadily to 5.11 trillion yuan, 750 billion yuan higher than in 2017, marking a year-on-year increase of 17.2%. RMB cross-border trade settlement represents 14.9% of China's trading volume of goods and services, a year-on-year increase of 1%.

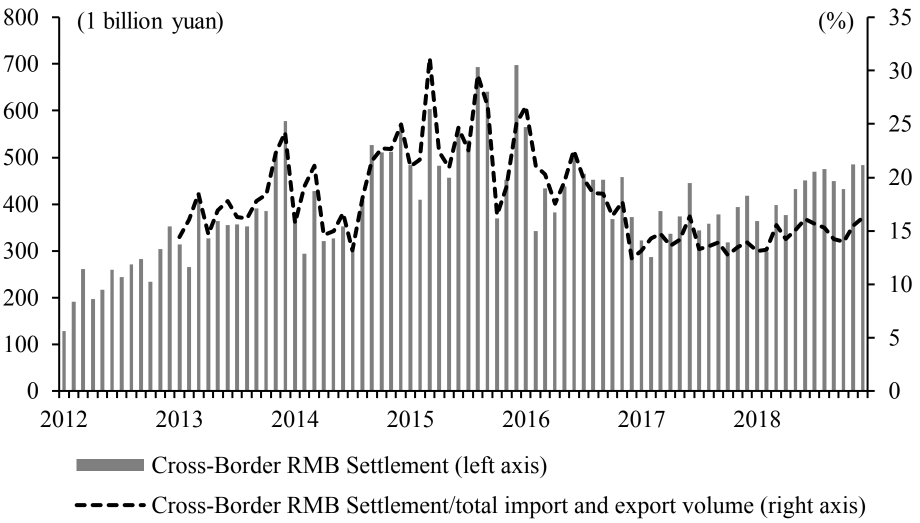

Figure 5 Cross-Border RMB Settlement

Source: the People's Bank of China; State Administration of Foreign Exchange

3.1.2 Trade of goods makes up the majorityof settlement and trade of service grew significantly

In 2018, cross-border trade of goods that were settled with RMB grew by 11.9% year-on-year to 3.66 trillion yuan; the total sum accounted for71.6% of the total cross-border RMB settlement, which is the lowest since 2013. Trade of services settled with RMB was up by 33% to 1.45 trillion yuan; it made up28.4% of the cross-border RMB settlement. If the settlement caliber adjustment factors for trade of goods and trade of services in 2014 are deducted, the annual growth rate of trade of services settled with RMB in the past 5 years was even higher.

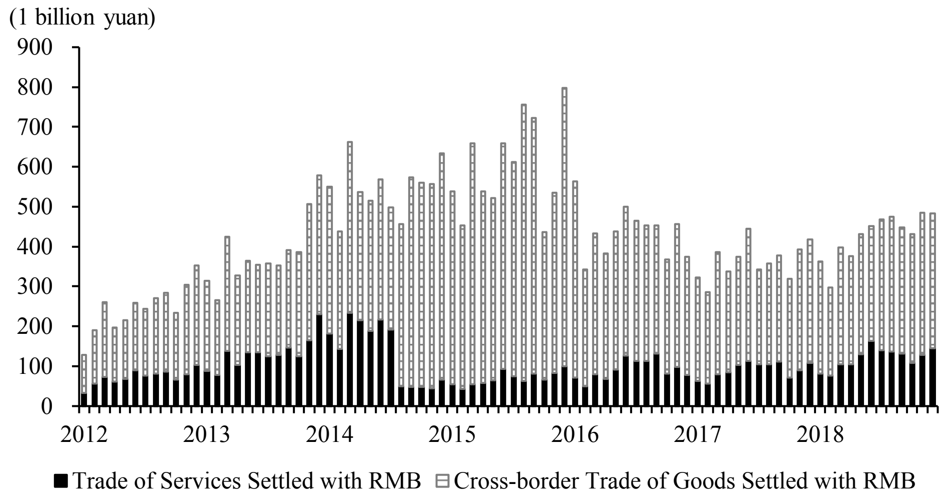

Figure 6 Trade of Goods and Services Settled with RMB

Source: People's Bank of China

3.1.3Cross-border RMB payments and receipts were balanced while the receipts were higher than payments

In 2018, the combined sum of cross-border RMB receipts and payments increased sharply to 15.85 trillion yuan, up by 72.5% from 2017. The sum of cross-border RMB receipts and payments under the current account was 5.11 trillion yuan, a year-on-year increase of 17.2%, while that under the capital account was 10.74 trillion yuan, a year-on-year increase of 122.4%, making RMB transactions under the capital account the main driving force of cross-border RMB receipts and payments. After the receipts-to-payments deficit in 2016 and 2017, 2018 witnessed a small receipts-to-payments surplus, with the ratio of cross-border RMB receipts to payments being 0.98. The total sum of receipts was 8 trillion yuan and the total sum of payments was 8 trillion yuan. The figures show that the scale of RMB outflow and backflow was expanding, and the payments and receipts were more balanced.

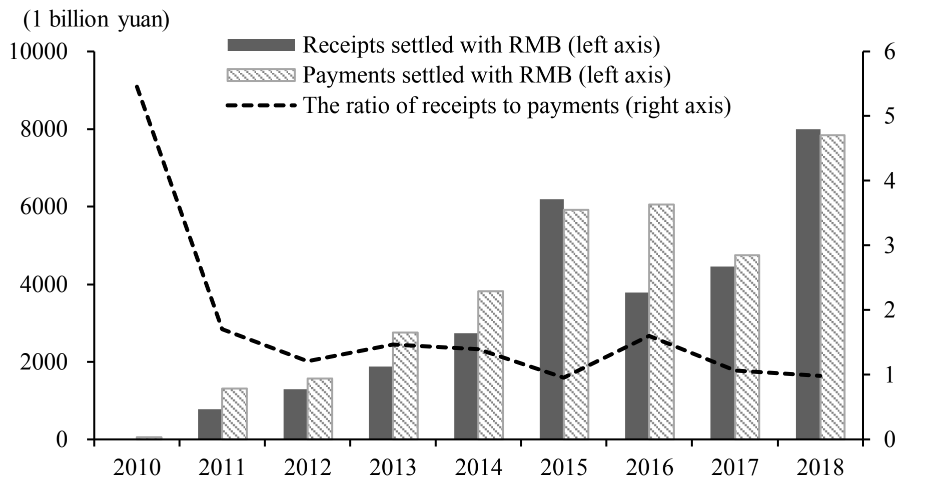

Figure 7 The Ratio of Receipts to Payments in Cross-Border Trade Settled with RMB

Source: People’s Bank of China

3.2 RMB-denominated financial transactions

3.2.1 RMB-settled FDI

3.2.1.1Outward investment remained stable as RMB-settled ODI rose sharply

In 2018, China’s outward investment added up to 129.83 billion dollars, up by 4.2%. Non-financial outward direct investment was 120.5 billion dollars, 0.3% higher than in 2017; financial outward direct investment was 9.33 billion dollars, 105.1% higher than in 2017. RMB-settled ODI reached 804.81 billion dollars, a year-on-year increase of 76.2% (347.9 billion dollars), reversing the negative growth in 2017 and exceeding the ODI growth peak in 2016.

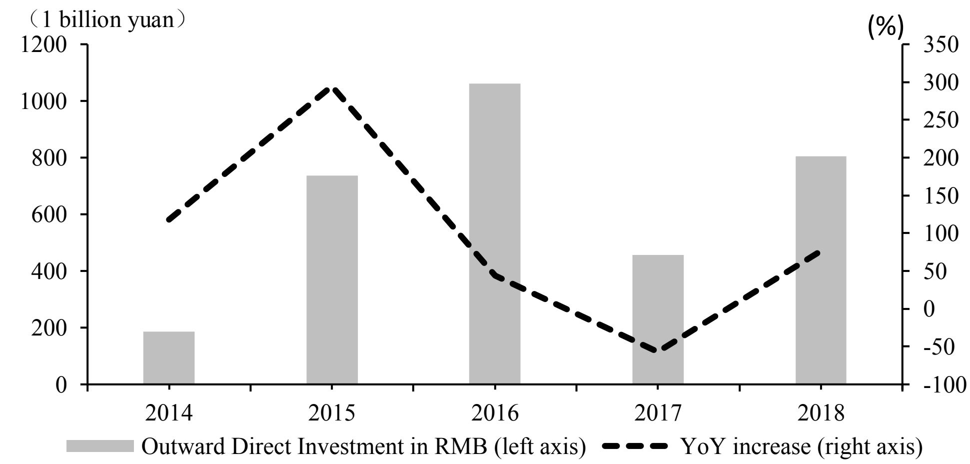

Figure 8 Outward Direct Investment in RMB

Source: People’s Bank of China

3.2.1.2RMB FDI reached a historical high

In 2018, global cross-border direct investment witnessed a year-on-year decrease of 19%, dropping for three years consecutively. China's FDI rose despite of the global situation. China utilized 885.61 billion yuan of FDI this year. FDI settled with RMB reached a historical high of 1.86 trillion yuan, up by 57.6% on a yearly basis.

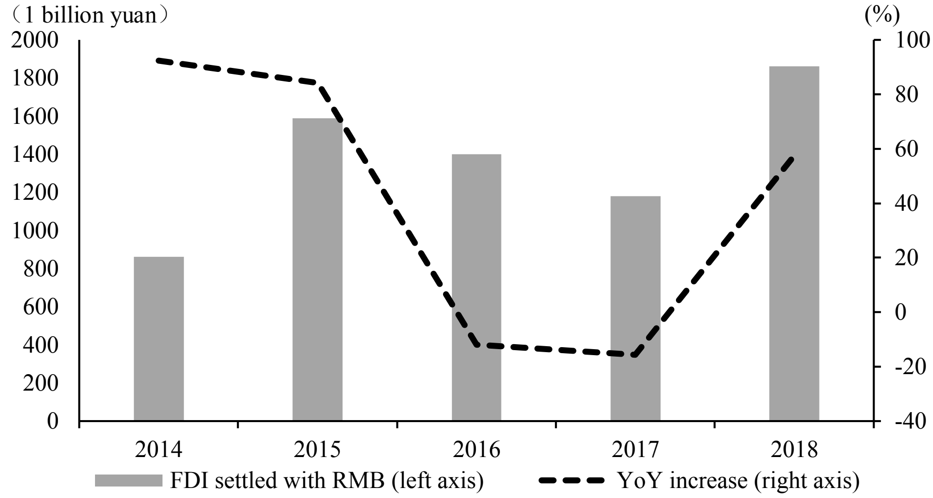

Figure 9 FDI Settled with RMB

Source: People's Bank of China

3.2.2Investment in RMB-denominated securities

3.2.2.1 The international bonds and notes stock increased slightly

With intense China-US trade frictions and uncertainties of Brexit, the PBoC continued to implement a prudent and neutral monetary policy. The PBoC carried out 4 targeted cuts to required reserve ratios and flexible open market operations to ensure adequate liquidity and comparatively high interest rates. At the end of 2018, RMB-denominated international bonds and notes stock reached 107.549 billion dollars, up by 4.202 billion dollars (4.07% YoY), and accounted for 0.44% of the total international bonds pool.

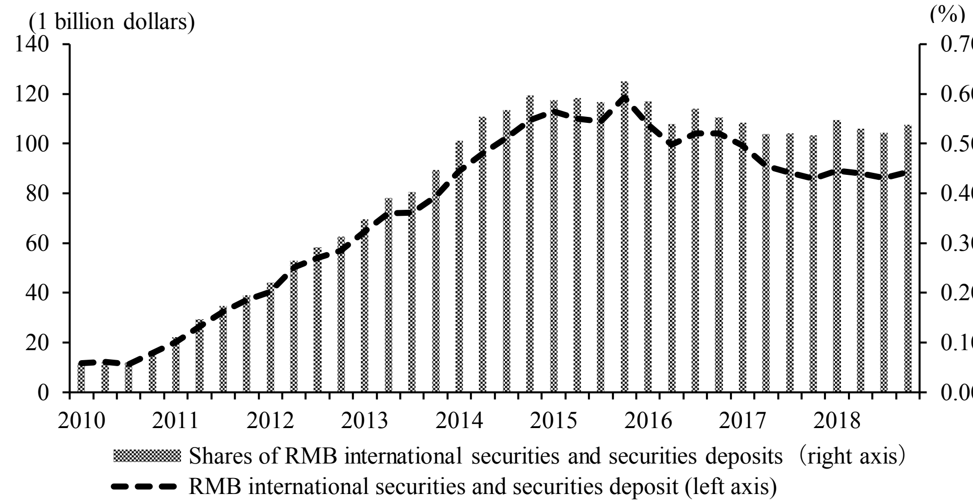

Figure 10 RMB International Securities and Securities Deposits and TheirShares

Source: Bank for International Settlements

3.2.2.2 The stock market's financing function suffered a setback while market opening up progressed steadily

In 2018, China's stock market plunged. The Shanghai composite index, the Shenzhen Component Index and the Growth Enterprise Index all dropped. Enterprises and financial institutions financed 682.7 billion yuan through stock issuance, season equity offerings, allotment of shares and warrant exercise. This figure was 41.9% lower than in 2017.

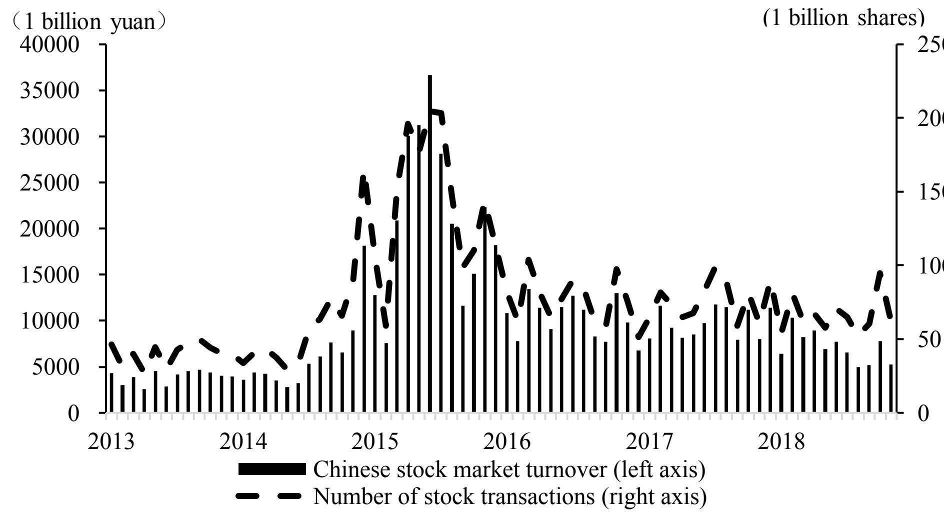

Figure 11 Chinese Stock Market Turnover

Source: China Securities Regulatory Commission, GTA

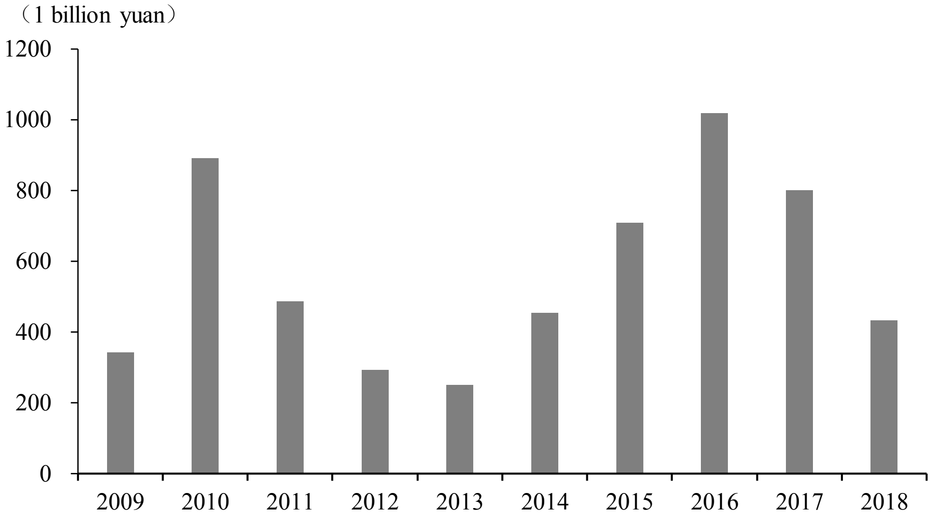

Figure 12 Financing in Chinese Stock Market

Source: China Securities Regulatory Commission, GTA

The opening up of the stock market achieved a new break through and the limit on foreign-funded institutions was significantly reduced. China also carried out a new round of reform on QFII and RQFII, lowered the entry threshold for institutions and expand the investment scope of QFII and RQFII, allowing them to invest in the NEEQ market, bond repurchase, private investment fund, financial futures, commodity futures, share options and stock exchange securities margin trading.

3.2.2.3 The development of the derivatives market made new breakthroughs

In 2018, the innovation of China's derivatives market was active. Crude oil futures, paper pulp futures, glycol futures and 4 new types of 2-year treasury bond futures were launched. On March 16, 2018, the long-planned crude oil futures were launched in INE, marking a significant milestone in China's future market.

In 2018, the total deals in the inter-bank RMB interest rate derivatives market reached 21.4 trillion yuan, a year-on-year increase of 48.6%. The total number of deals was 188500, up by 36.2%. Notional principal totaled 21.3 trillion yuan, increasing by 48% year-on-year; bond forward totaled 400 million yuan, standard totaled 79.4 billion yuan, the notional principal of CRMW was 6.7 billion yuan, and credit default swaps totaled 1.9 billion yuan.

Table 1 Turnover in the Inter-Bank RMB Interest Rate Derivatives Market (Unit: 100million yuan)

Year	Q1	Q2	Q3	Q4
2013	7375.83	7960.00	5697.80	6011.25
2014	8044.50	8908.53	9569.63	13778.11
2015	16596.91	19319.37	22519.47	23635.70
2016	20066.68	23617.65	25778.24	29714.44
2017	26830.53	28493.92	36541.63	51596.19
2018	52897.16	58921.23	49587.66	49457.13

Source: China Foreign Exchange Trade System

As the flexibility and elasticity of RMB exchange rates improve, the need for RMB exchange rate risk management is growing, and the exchange rate derivative market is playing an increasingly important role. 11 exchanges in 9 countries or regions have carried out RMB exchange rate futures transactions, and 2 exchanges have carried out RMB exchange rate options transactions. In 2018, a new exchange engaged in RMB exchange rate futures transactions- Asia Pacific Exchange. In 2018, among exchanges engaging in RMB exchange rate derivative transactions, HKEX, SGX and CME maintained high growth of USD/CNH service since 2015.

3.2.2.4 RMB-denominated financial assets are favored by international investors

At the end of 2018, RMB-denominated financial assets held by overseas institutions and individuals totaled 4.85 trillion yuan, up by 13% (561 billion yuan) and maintaining the growing momentum in 2016. Among RMB-denominated financial assets held by non-residents, bonds took up the largest proportion, followed by stocks, deposits and loans. In the past 5 years, financial assets held by non-residents were more diversified, with bond financial assets growing rapidly and deposit financial assets decreasing continuously.

Figure 13 RMB-denominated Financial Assets Held by Overseas Institutions and Individuals

Source：CEIC

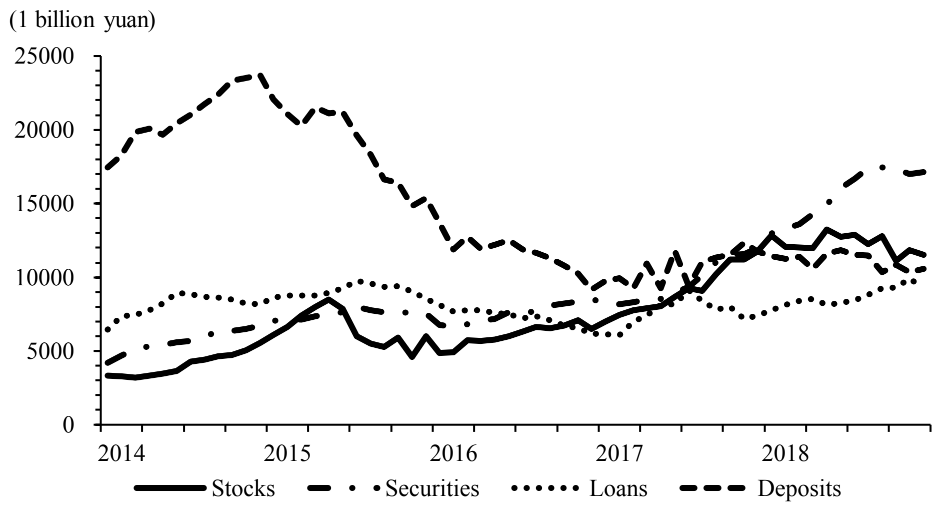

Figure 14 RMB-denominated Financial Assets Held by Overseas Institutions and Individuals

Source：CEIC

3.2.3 RMB outbound loans

By the end of 2018, RMB overseas loans of domestic financial institutions reached 507.53 billion yuan, increasing by 1.14%. The newly increased RMB overseas loans increased 5.727 billion yuan, which was 978 billion yuan more than that in 2017. RMB overseas loans accounted for 0.37% of total loans by Chinese financial institutions, the same with that of 2017.

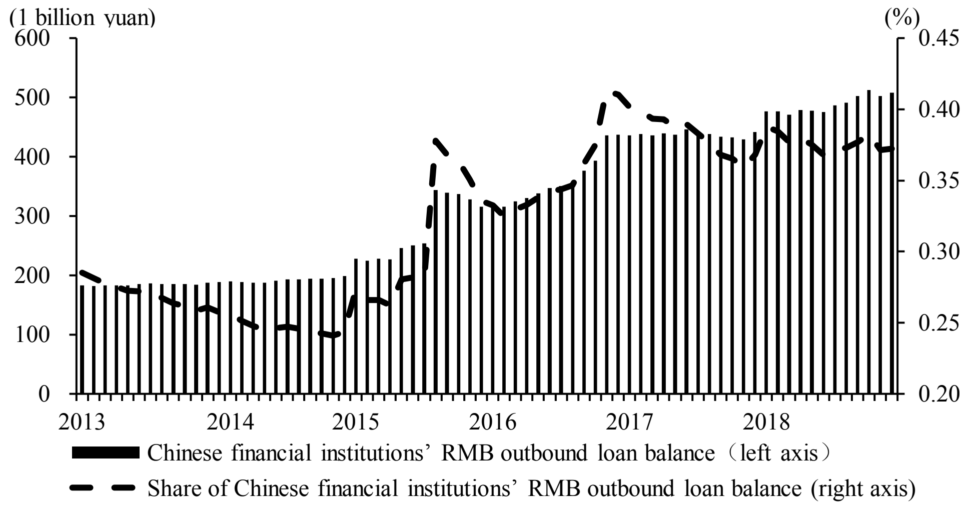

Figure 15 Chinese Financial Institutions' RMB Outbound Loan Balance and its Share

Source: PBoC

3.2.4 RMB foreign exchange trade

In 2018, the turnover of China's inter-bank foreign exchange market grew steadily by 23.9% to 225.4 trillion yuan. The turnovers in the RMB forex market, the inter-bank foreign currency market and the foreign currency lending market were 165.1, 1.2 and 59.1 trillion yuan respectively, growing by 20.4%, 54.2% and 34.2%. The turnover of overseas institutions (including foreign currency inter-bank lending) totaled 8875.17 billion yuan, up by 70.3 year-on-year.

In 2018, RMB foreign exchange spot transactionstotaledover 1 trillion yuan, including 502.8 billion yuan of spot transactions between RMB and other SDR currencies. Dollar was the largest transaction currency, followed by Euro and yen. The amount of transactions between RMB and other non-international reserve currencies was small, with New Zealand dollar, Russian ruble, Malaysian ringgit and South African rand as the main transaction currencies. In 2018, the transactions between RMB and New Zealand dollar and those between RMB and Russian ruble increased on a large margin.

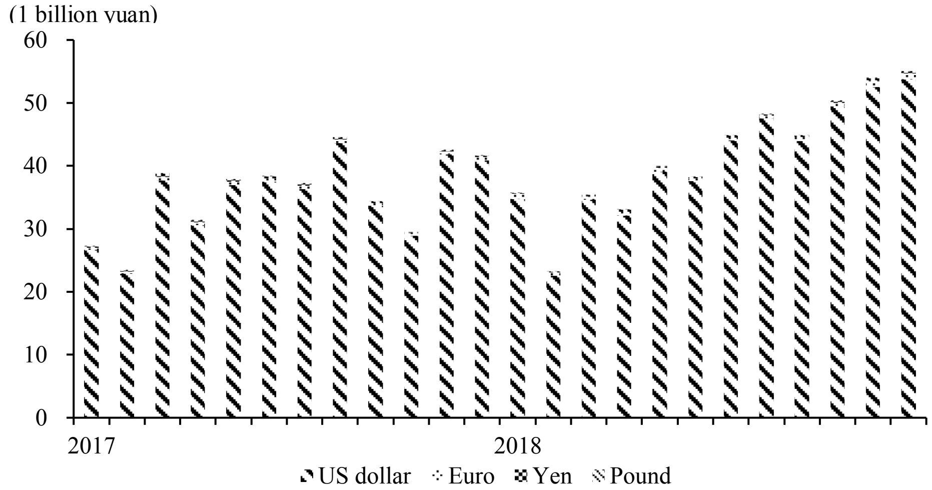

Figure 16 The Volume of Interbank Forex Spot Transactions of RMB VS Other SDR Currencies

Source: China Foreign Exchange Trade System

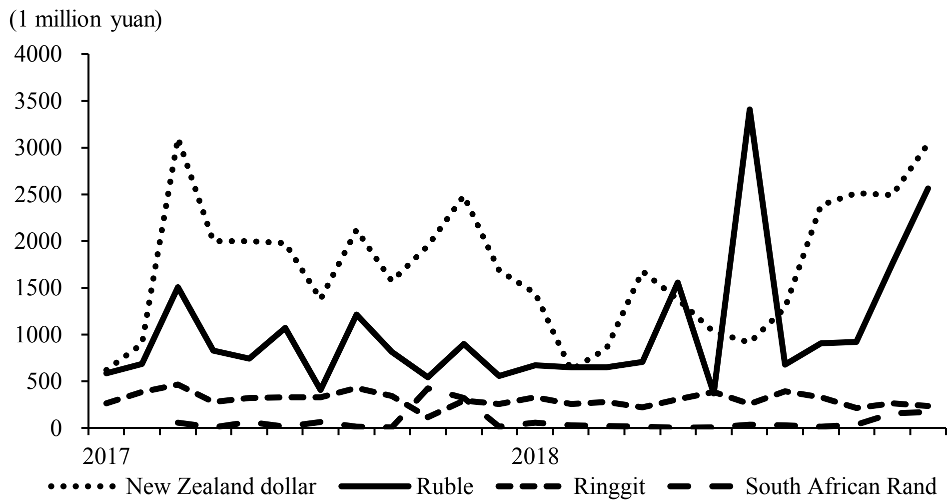

Figure 17 The Volume of Interbank Forex Spot Transactions of RMB VS OtherCurrencies

Source: China Foreign Exchange Trade System

In 2018, the turnover of foreign exchange derivatives in China (including the inter-bank forex market and the bank-to-customer market) reached 119.48 trillion yuan, increasing by 21.2 trillion yuan (21.6%). Its share in the forex market continued to increase from 60.6% in 2017 to 61.9%.

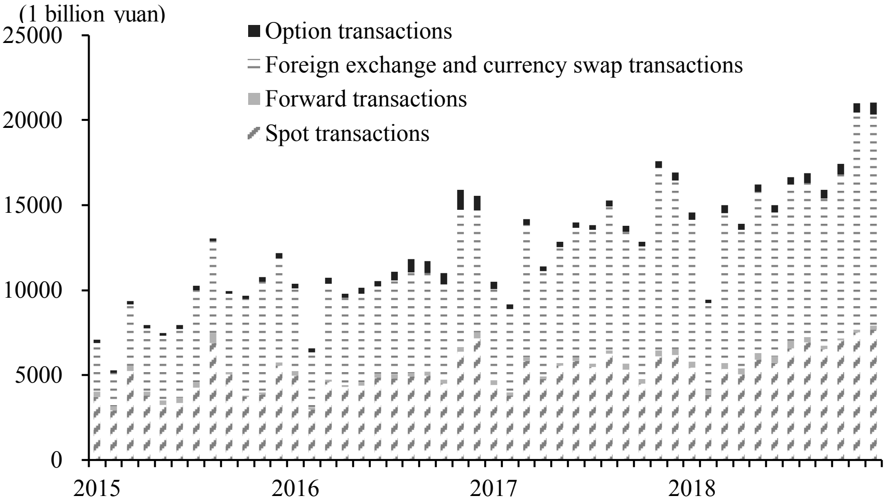

Figure 18: RMB Forex Market Transactions

Source: State Administration of Foreign Exchange

3.3 RMB in Global Foreign Exchange Reserves

In March 2017, IMF released data of the currency composition of official foreign exchange reserves (COFER) on an expanded currency range, separately identifying holdings in RMB for the first time. By the end of 2018, forex reserves which were identified in the RMB reached 202.79 billion dollars, an increase of 79.317 billion dollars, accounting for 1.89% of the world's total forex reserves, compared to 1.23 percent in 2017.

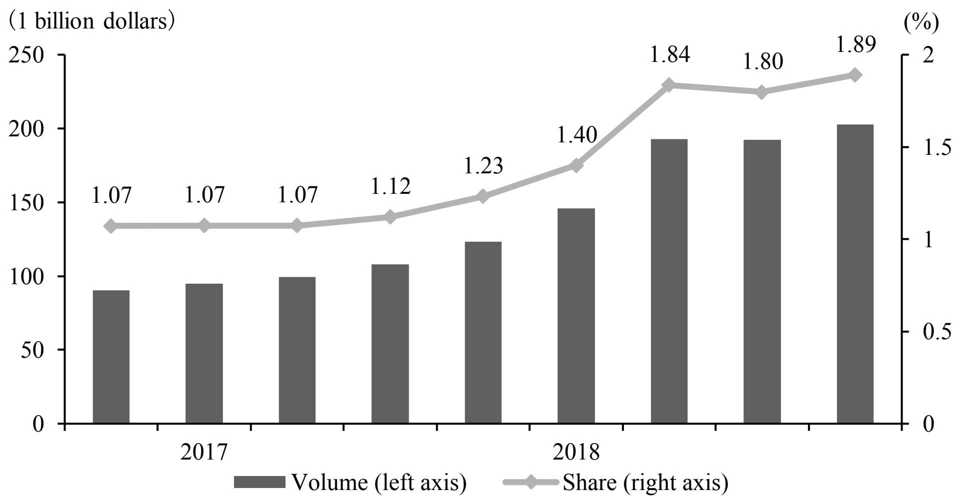

Figure 19 RMB's Size and Share in Official Foreign Exchange Reserves

Source:COFER, IMF

In 2018, the PBoC consecutively renewed bilateral currency swap agreements with the central banks of Australia, Albania, South Africa, Belarus, Pakistan, Chile, Kazakhstan, Malaysia, UK, Indonesia and Ukraine, and signed 2 new bilateral currency swap agreements with the central banks of Nigeria and Japan. By the end of 2018, PBoC has signed bilateral currency swap agreements with the central banks or currency authorities of 38 countries or regions, with a total volume of 3678.7 RMB yuan.

3.4 RMB exchange rate and the opening up of China’s capital account

3.4.1 RMB exchange rate

In 2018, the exchange rate formation mechanism, currently composed by closing rates, the exchange rate changes in a basket of currencies and counter-cyclical factor, is functioning orderly, and the changes of market supply-demand relationship played a determinant role. The elasticity and bi-directional volatilities increased, and the exchange rates of the currency basket were generally stable.

3.4.1.1 The rise and fall of RMB exchange rates against developed countries

The exchange rates of the RMB against major international currencies rise and fall with expanded bi-directional volatility. At the end of 2018, the central parity rate of the RMB against the US dollar was6.8632, down by 4.8% year-on-year; that against the European euro was 7.8473, generally at the same level with the previous year; that against the Japanese yen was 6.1887 with a large year-on-year depreciation of 6.47%; that against the pound was 8.6762 with a slight appreciation of 1.19%. The exchange rate of the RMB against the Singapore dollar and the Swiss franc depreciated in volatility, by 2.46% and 3.91% respectively, while that against the Australian dollar, Canadian dollar and New Zealand dollar appreciated in volatility, by 5.55%, 3.23% and 0.81% respectively.

3.4.1.2 The effective exchange rate rebounded

According to the Bank for International Settlements, the real effective RMB exchange rate rebounded in 2018, and achieved a strong growth in the latter half. The real effective RMB exchange rate index in December 2018 was 119.19, up by 1.17%. The real effective exchange rate index (with inflation factors deducted) was 122.86, up by 1.04%.

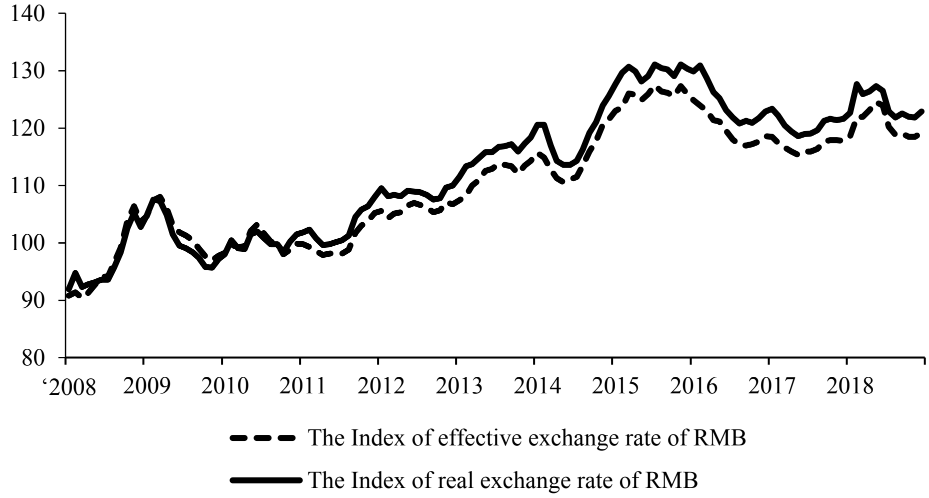

Figure 20 The Trend of the Effective Exchange Rate of RMB

Source: Bank for International Settlements

3.4.1.3 The RMB exchange rate index fell after rise

From the end of 2015 to the first half of 2018, the CFETS RMB exchange rate index and the RMB exchange rate indices of the BIS currency basketand the SDR currency basket all showed a “smiling” curve. From the second half of 2018, the three indices fell gradually. At the end of 2018, the CFETS RMB exchange rate index was 93.28, down by 1.66% year-on-year; the RMB exchange rate indices of the BIS currency basketand the SDR currency basket were 96.78 and 93.14, up by 0.89% and down by 2.97%.

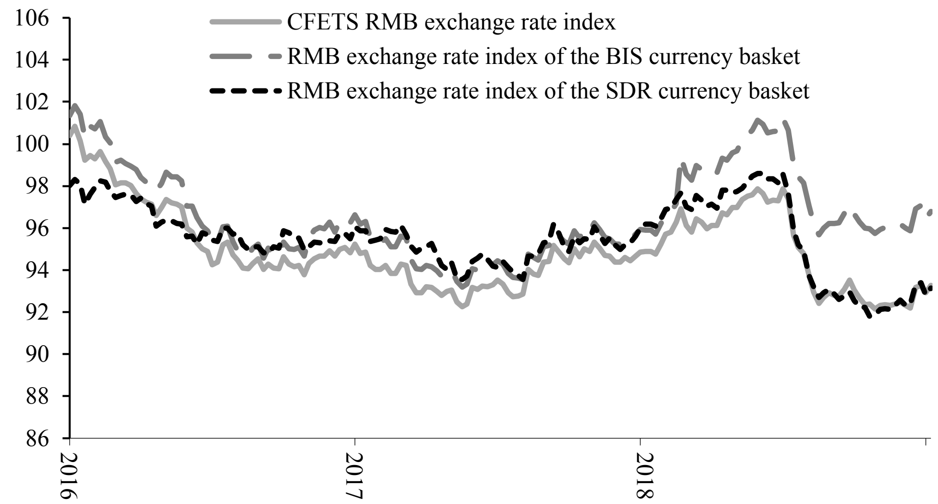

Figure 21 RMB Exchange Rate Indices

Source: CFETS

3.4.1.4 The bi-directional volatilities of CNH

In 2018, CNY and CNH both showed bi-directional volatilities. CNY and CNH reached the peak of the year on February 7th and March 26th, at 6.2596 and 6.2543 respectively, and closed at 6.8658 and 6.8795 on December 28th, decreasing by 5.15% and 5.33%. The annual average spread between CNY and CNH was 128 base points, 9 base points lower than in 2017.

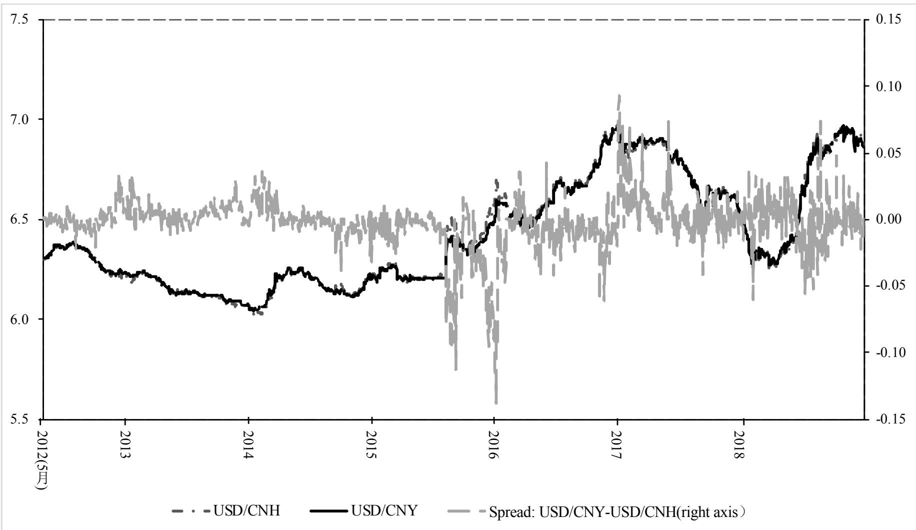

Figure 22 The exchange rates of CNY and CNH and their spread 2012-2018

Source: Wind

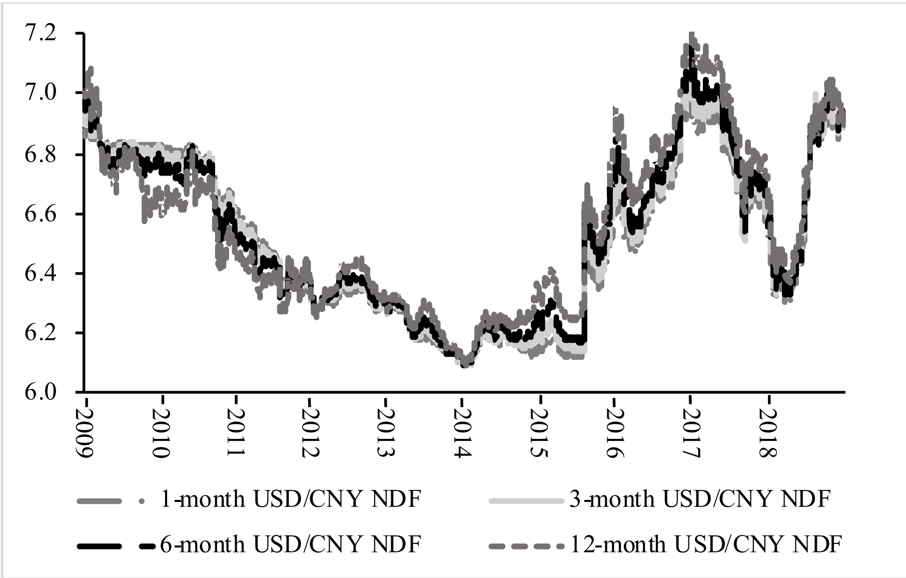

Figure 23 RMB NDF daily comprehensive closing price 2009-2018

Source: Wind

3.4.2 The measuring of the capital account openness in China

According to the IMF's description of China's capital account control in *Annual Report on Exchange Arrangement and Exchange Restriction 2018*, two items were banned in China's 2017 capital account, mainly focusing on the non-residents' participation in domestic monetary market and on the sale and issuancederivative tools. Partly banned items mainly focused on the deal of bond market, stock market, real estate and personal capital. Using the four-constraint method, considering the nuances at the same time, and based on the quantitative analysis of the *AREAER 2018*, the degree of openness of China's capital account scored 0.701 with a year-on-year rise of around 40% from 0.5045 in 2012.

3.4.3 The capital items with altered openness

In 2017, China relaxed 6 items, namely "Control of Capital Market Securities Trading", "Control of Money Market Instruments", "Control of Collective Investment Securities", "Control of Derivatives and Other Instruments", "Control of Commercial Credit" and "Control of Direct Investment", and 9 sub-items showed apparent changes. For example, China relaxed control over "non-resident domestic purchase", indicating China's capital account is moving towards openness.

It should be pointed out that the IMF's *Annual Report on Exchange Arrangement and Exchange Restriction 2018* describes capital account control in 2017, so it lags one year behind. In 2018, China took multiple measures to open up the financial market, so the openness of the capital market should be higher than our measurement.

Part IV Promoting openness through reform-facilitating development through opening up-the facilitator of RMB internationalization

4.1 Deepening financial supply-side structural reform and enhancing financial capacity to serve the real economy

We will give full play to new comparative advantages including innovation, green development and consumption, so as to deepen financial supply-side structural reform, enhance financial capacity to serve the real economy, sharpen the comprehensive competitiveness of enterprises, enable China to walk to the mid-to-high end of the international industrial chain and consolidate the micro foundation for financial opening up at a higher level.

We must deepen supply-side structural reform and accelerate to develop new comparative advantage to provide sustained new driving force for high-quality economic growth and consolidate the micro foundation for financial opening up at a higher level. First, we will focus on developing strong innovation capacity. We should utilize the human capital advantage, make breakthroughs in global and leading technology and seize the highland of technological innovation. Second, we should take advantage of our complete industrial system and win an upper hand in the restructuring of the global industrial chain. We should leverage our advantages and production factors to develop industries and value chain links with absolute competitive advantages, and focus on strategic emerging industries, such as new-generation IT technology, high-end equipment manufacturing, low-carbon, bio-medicine, digital economy, new materials and maritime economy, so as to develop new industrial pillars and win maximum comparative advantage in the new round of international division of labor. Third, we should transform the large consumption market into the driving force of economic growth. The vast population of 1.37 billion people and the need to upgrade their consumption will inevitably create a hugemarket and provide profound space for enterprises to develop. Besides, we should use the advantages of China's consumption market and utilize new trade platforms such as the CIIE to promote global industrial cooperation and better allocate resources.

We should stick to the basic principle of seeking progress while maintaining stability and promote financial supply-side structural reform, so as to enhance our financial capacity to serve the real economy and give play to finance as an accelerator. Active finance promotes rapid economic growth. High-quality economic development provides source and direction for financial development in terms of efficiency, prudence and inclusiveness, and it will be the touchstone of sound financial development.

It should be specially noticed that fintech development, financial product innovation, financial market interaction and financial supervision standard differences may easily cause idle capital and bubbles in the stock and property market and impede capital flow to the real economy. Therefore, during financial opening up, we should properly handle the relation between the real economy and financial development and prevent the shift to the virtual economy.

4.2 Further opening up the financial market and enhance direct investment's role as a drive

We must further open up the financial market, guide the bi-directional capital flow and give play to direct investment. We should promote the reform and opening up of the financial market in a coordinated manner, strive to strengthen financial institutions' competitiveness, especially risk management capacity, and focus on the opening up of the monetary market, the bond market and the forex market.

High-level opening up of the financial market and bi-directional direct investment expansion is the only way to industrial upgrading, and a necessary guarantee for high-quality economic development. Rent-seeking, financial repression and an unreasonable financial structure have caused uneven development in different areas of China, lack of economic vitality and defective allocation of resources that undermine high-quality development. Direct investment is the most effective way to allocate cross-border resources. We must further open up the financial sector, encourage and guide FDI to flow to high-end manufacturing and service industries and improve the FDI structure to change China's traditional role as a processing base for low-cost exports.

The reform and opening up of the financial market should be coordinated. Opening up means marketization and internationalization at a higher level; it means full competition and innovation; it directly pushes forward the growth of China's financial market. The foci of deepening financial market reform should be enhancing financial institutions' competitiveness, increasing the depth and coverage of the financial market and promoting inclusive and effective financial supervision. In particular, we should increase the anti-rick capacity of financial institutions.

During the opening up of the financial market, the monetary market, the bond market and the forex market should be the priorities. First, the opening up of the domestic inter-bank money market can provide support for offshore RMB market development, promote openness of the capital account and enhance the transmission of the central bank's monetary policies. Second, the opening up of the bond market can improve the vitality and efficiency of China's bond market and create new opportunities for further opening up of the domestic bond market; the launch of the bond connect can help consolidate Hong Kong's position as an international financial center. Third, the opening up of the forex market can promote orderly flow and in-depth integration of domestic and global financial factors, and it is the road to take to optimize the RMB exchange rate formation mechanism and improve China's positions as an international financial center. The inter-bank forex market is the core of forex market opening up.

4.3 Enhancing financial infrastructure development and attaching equal importance to both infrastructure and institutional development

Financial infrastructure is a necessary guarantee for higher-level financial opening up and RMB internationalization. We should both utilize new technology to enhance the infrastructure connectivity of payment, trade and settlement systems, and make new breakthrough in financial institution and financial standard development. In terms of international financial infrastructure development, we should strive to improve the coordination mechanism, optimize the development path and actively develop own standards, so as to provide safe and efficient technical support and institutional foundation for financial opening up at a higher level.

Financial infrastructure provides the “pipeline” for capital flow, therefore its development is the precondition for sound financial development and high-level financial opening up. Enhancing financial infrastructure development with the RMB payment and settlement system as the core and promoting financial infrastructure coordination will promote the transformation of financial instruments, provide strong support for financial information sharing and safety and lay a solid foundation for financial opening up.

Compared with advanced economies, China still face many problems, and should enhance both financial infrastructure and institutional development. We must learn from the successful experience abroad, enhance understanding of the importance of financial infrastructure and optimize all functional systems. While strengthening infrastructure development, we should also pay attention to the development of financial systems and standards. We must optimize relevant regulations, establish financial standard systems and promote international financial supervision cooperation to lay an institutional foundation for cross-border investment, financial trade facilitation and RMB internationalization.

4.4 Optimizing macro-prudential management and improving anti-risk capacity

We should use macro-prudential policies to prevent cross-border capital flow risks. We should actively explore new models of international investment management, continue to improve the negative list and ensure national security and industrial advantages in further opening up.

Compared with traditional capital control, the macro-prudential policy is more suitable for preventing cross-border capital flow risks. First, different types of macro-prudential tools have distinct effects in controlling cross-border capital flow. Macro-prudential tools related to foreign exchange reserves (such as foreign exchange loan limits) are effective in controlling cross-border capital flow risks. Among other macro-prudential tools, required reserves, counter-cyclical capital buffers, dynamic loan loss reserves, additional requirements of systemically important financial institutions and inter-bank risk limits are the most effective. Second, the openness of macro-economic policies moves in the same direction with cross-border capital flow. The more open the policy is, the more capital inflows, but the inflow volume is limited by macro-prudential policies. Third, coordination and economic openness is key to the effectiveness of macro-prudential policies. If macro-prudential policies can coordinate with interest rate-related policies, they can effectively control cross-border capital flow by limiting the assets and liabilities of financial institutions and applying capital buffers. In the case of inefficientcooperation between the two, the government can control other investment such as bank credit by lowering the level of economic openness, but such practice does not apply to FDIand cross-border securities investment.

We should use the negative list to ensure national safety and guarantee industrial advantages in opening up. In essence, the negative list is a pre-establishment national treatment following the principle that “All is permissible unless prohibited”. It can improve the openness, transparency and predictability of the investment environment by a large margin. In 2017, China implemented the negative list nationwide and beganto transfer from the opening up of commodity and factor flows to that of institutions, such as regulations. However, certain problems do remain. For example, the negative list covers too many sectors; it lacks coordination with other policies related to national security, public order, public culture and macro-prudence; the description of non-conforming measures is not detailed enough. We should further optimize the negative list system under the macro-prudential management framework.

4.5 Enhancing international coordination and cooperation and creating a stable external environment

We should properly handle the relation with main currencies such as the dollar and create a stable and predictable policy environment, so as to boost market confidence in RMB internationalization.

We must deal with the relation between RMB and the dollar and maintain patience with and resolution in RMB internationalization. We must recognize that RMB internationalization is a long and tortuousprocess, and prepare for it. As the current global situation boosts a strong dollar, we must properly handle the trade frictions, policy communication and coordination between China and the US. We should keep the trade balance within a reasonable range to guarantee a stable exchange rate of RMB against the dollar at an adaptive and equilibrium level. We should strengthen top-level communication to reduce policy misjudgment and misconduct risks, and utilize the China-US Strategic and Economic Dialogue to strengthen macro-economic policy coordination. At the same time, it is essential to actively facilitate people-to-people exchange, emphasize the obligation of RMB internationalization to provide public goods along with other main currencies, so as to alleviate the pressure from the dollar. We must guide the use of RMB in Asia and countries along the Belt and Road, and avoid head-on confrontations with the dollar.

During the process of Brexit, it is necessary to deepen cooperation with the UK and EU in sectors of trade, investment and financial market. We must sign free trade deals with the UK as soon as possible to utilize the complimentary economic structures in both countries. The financial advantages of London can be leveraged to enable the offshore RMB center in London to become a RMB payment channel that covers participating countries of the Belt and Road Initiative, or even the world. At the same time, we should continue to advocate multilateralism, join hands with EU to make breakthroughs in industrial cooperation and trade and investment facilitation, expand trade and investment in Central and Eastern Europe, improve the allocation of China's competitive industries in Europe and expand the use of RMB in good time.

RMB Internationalization Milestones (2018)

Date	Event
January 2, 2018	The Central Bank of Pakistan approved the use of RMB as a settlement currency in bilateral trade with China.
January 4, 2018	The PBoC and the Bank of China, Taipei Branch, renewed the Clearing Arrangement on RMB Business
January 5, 2018	The Notice on Further Improving RMB Cross-border Business Policy to Promote Trade and Investment Facilitation was printed and issued.
January 8, 2018	Shanghai Clearing House launched the central counterparty clearing serviceforRMB glycol swaps.
January 12, 2018	Bank of Tokyo-Mitsubishi UFJ and Mizuho Bank consecutively issued panda bonds.
January19, 2018	All quoting banks took the incentive to adjust the “countercyclical coefficient” based on their judgment of economic fundamentals and market conditions; the “countercyclical coefficient” returned to neutral.
February 1, 2018	Sharjahr of UAE issued 2 billion yuan worth of RMB-denominated bonds in CIBM.
February 2, 2018	The PBoC authorized the CIBM to optimize RMB-THB conversionmeans and transform from regional conversion to direct conversion.
February 2, 2018	Shanghai Clearing House officially rolled out the central counterparty clearing services for cross-border forex transactions.
February 5, 2018	China Foreign Exchange Trade System launched foreign exchange swap service and added RMB-AUD swap service in CFETS FX2017.
February 8, 2018	The Belt and Road corporation bonds were issued in Shenzhen Stock Exchange by China Merchants Port Holdings Company Limited and Iowa China Offshore Holdings (Hong Kong) Limited
February 9, 2018	PBoC authorized J.P. Morgan Chase to act as a clearing bank for RMB business in the US.
February 13, 2018	The SAFE published the Notice on Improving Exchange Management Issues Related to Future Foreign Exchange Settlement Business
February 26, 2018	Bank of China, Macau Branch issued 4 billion yuan worth of “lotus bonds”.
March 20, 2018	The Philippines issued 1.46 billion yuan worth of RMB-denominated bonds in CIBM.
March 23, 2018	Bloomberg announced to incorporate RMB-denominated Chinese treasury bonds and policy bank bonds into Bloomberg Barclays Indices.
March 26, 2018	The second phase of CIPS entered the pilot run.
March 26, 2018	Crude oil futures prices and settled with RMB was listed in Shanghai International Energy Exchange.
March 30, 2018	PBoC and Reserve Bank of Australia renewed the bilateral currency swap agreement.

April 2, 2018	Shanghai Clearing House launched the central counterparty clearing service for RMB methanol swaps.
April 3, 2018	Moscow Exchange planned to expand RMB transaction business.
April 3, 2018	PBoC and the Central Bank of Albania renewed the bilateral currency swap agreement.
April 9, 2018	Ministry of Finance of Japan and Central Bank of Japan said RMB would be added to the items of the annual investment portfolio data.
April 11, 2018	PBoC and the Central Bank of South Africa renewed the bilateral currency swap agreement.
April 12, 2018	Bank of China, Pakistan Branch was allowed to establish local RMB settlement and clearing mechanism in Pakistan.
April 18, 2018	3 billion yuan worth of bonds issued by the Bank of China, Taipei Branch was listed in Gretai Securities Market
April 27, 2018	PBoC and the Central Bank of Nigeria signed the bilateral currency swap agreement.
April 30, 2018	Trafigura became the first international large commodity trade company to enter China's capital market to raise funds, and had raised 500 million yuan by issuing the first batch of RMB-denominated bonds (panda bonds).
May 2, 2018	China Foreign Exchange Trade System launched interest rate swap service involving dollar, euro, pound, yen, Hong Kong dollar and Australian dollar in CFETS FX2017.
May 2, 2018	Swiss Bank Corporation officially became the first foreign-funded institution applying for holding securities companies' shares in Chinese mainland.
May 4, 2018	The iron ore future denominated by RMB in Dalian Commodity Exchange officially introduced overseas traders.
May 9, 2018	The pilot area of RQFII was expanded to Japan, with an investment volume of 200 billion yuan.
May 10, 2018	PBoC and the Central Bank of Belarus renewed the bilateral currency swap agreement with a volume of 7 billion yuan/2.22 billion Belarusian ruble.
May 15, 2018	HKEX announced the contract month and intertemporal combination of the newly-added USD-CNH (Hong Kong) futures.
May 16, 2018	Horgos International Border Cooperation Center's Tenge cash cross-border transfer service was officially launched, marking the establishment of local currency settlement channels between China and Kazakhstan.
May 21, 2018	Fudian Bank Mohan Branch and Laos-China Bank Boten Branch carries out the first cooperation on bilateral currency cash transportation.
May 23, 2018	PBoC and the Central Bank of Pakistan renewed the bilateral currency swap agreement with a volume of 20 billion yuan/351 billion Pakistan rupee.
May 29, 2018	Longjiang Bank Mudanjiang Dongning Branch transported 15 million yuan worth of cash to Russia via the Dongning land border port. This is the first time a financial institution in Heilongjiang transported RMB cash via a land border port.
May 31, 2018	A-share was officially incorporated into the MSCI Emerging Market Index
June 15, 2018	PBoC published the Notice--Issue concerning the Improvement of the

	Management of the RMB Purchase and Sale Business
June 16, 2018	China-Russia RMB Fund Management Corporation was established.
June 21, 2018	Management Committee of China (Shanghai) Pilot Free Trade Zone announced 25 new policies for the opening up of the financial industry in the FTZ.
June 28, 2018	The latest version of the Special Administrative Measures for Admittance of Foreign Investment (Negative List) was published, and opening up measures were implemented in 22 areas.
July 1, 2018	Aktobe Oil & Gas Co. Ltd. and Alataw Pass Hanlin Trade Co. Ltd. signed a contract to settle sulphur transactions with RMB.
July 5, 2018	The Ministry of Finance of China issued 5 billion yuan worth of treasury bonds in HKSAR.
July 23, 2018	CFETS launched foreign currency lending service backed by overseas foreign currency debt on the new-generation forex trade platform.
July 26, 2018	CNPC- International Aktobe Petroleum in Kazakhstan received a RMB payment directly paid in China.
August 16, 2018	The Central Bank of Bangladesh announced a new policy to allow relevant bank to establish RMB settlement accounts to settle with the central bank.
August 16, 2018	Labuan FSA officially designated BoC Malaysia Branch to extend its onshore settlement service to Labuan institutions.
August 20, 2018	PBoC and Bank Negara Malaysia renewed the bilateral currency swap agreement.
August 20, 2018	The first China (Xinjiang) – Silk Road Currency Regional Transaction Information Platform established by PBoCUrumchi Branch and CFETS was put into service.
August 24, 2018	Secretariat of the Forex Market Self-discipline Mechanism stated that based on their judgment of the market situation, the quoting banks of RMB-USD exchange middle rate had forwardly adjusted the "anti-cyclical coefficient" since August
August 29, 2018	The State Bank of Vietnam announced that from October 12, businessmen, residents, banks and institutions engaging in cross-border trade were authorized to use RMB or VND in trade.
September 3, 2018	CFETS officially introduced ICBC (Alma-Ata) Company and ICBC Standard Bank to participate in inter-bank forex transactions between RMB and tenge.
September 27, 2018	FTSE Russell announced to incorporate A share into the FTSE Global Equity Index in three groups from June, 2019, and put China's bonds into the observation list.
October 10, 2018	The Ministry of Finance of China issued 5 billion yuan worth of treasury bonds in HKSAR.
October 13, 2018	PBoC and Bank of England renewed the bilateral currency swap agreement.
October 16, 2018	Venezuela announced to exclude the US dollar in domestic foreign exchange transactions and use the Euro and RMB in transactions and settlement.
October 19, 2018	The APEX offshore RMB futures contract was officially launched.
October 26, 2018	PBoC and Bank of Japan signed the bilateral currency swap agreement.
November 5, 2018	The Dongxing-MongGai RMB-VND cross-border cash allocation business was officially launched.
November 7,	PBoCissued by tender20 billion yuan worth of RMB-denominated central bank

2018	bills through the CMU.
November 16, 2018	PBoC and the Central Bank of Indonesia renewed the bilateral currency swap agreement.
November 20, 2018	The RMB-Peso Direct Conversion Market in the Philippines was launched and the first deal was made.
November 30, 2018	PBoC Guangzhou Branch realized the first cross-border RMB loan to Thailand.
November 30, 2018	The Launching Ceremony of Introducing Overseas Traders into PTA futures was held in Zhengzhou Commodity Exchange
December 4, 2018	The first vehicle toll for the Hong Kong-Zhuhai-Macao Bridge was settled with cross-border RMB settlement service.
December 10, 2018	PBoC and National Bank of Ukraine renewed the bilateral currency swap agreement.
December 12, 2018	The structured note products linked to Hungary's RMB-denominated bonds, issued by the Bank of China, was listed in Budapest Stock Exchange.
December 17, 2018	Hungary issued 2 billion yuan worth of RMB-denominated bonds (panda bonds) in CIBM.

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