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Research Report

RMB Internationalization Report 2020

--How to Develop Shanghai into a Global Financial Center

International Monetary Institute, Renmin University of China

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---How to Develop Shanghai into a Global Financial Center

(Released Version)

International Monetary Institute, Renmin University of China

July, 2020

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Part I Preface

In 2019, the global economy was depressed, and China faced a more complicated and tough external environment. The “trade war” between China and the US was transforming into a “technology war” or “currency war”, which struck China’s industrial upgrading, trade and investment order. The US Commerce Department kept putting Chinese enterprises and colleges into the trade restriction blacklist; President Trump did not hesitate to resort to the International Emergency Economic Powers Act to restrict commercial activities; the US government joined hands with western allies to suppress Chinese enterprises such as Huawei to an extreme extent worldwide. The US Treasury even designated China as an “exchange manipulator” regardless of the facts. The trade negotiation teams on two sides held several rounds of high-level negotiations, and finally signed the Phase One Economic and Trade Agreement in early 2020.

Faced with the global political and economic changes never witnessed in the past century, China chose to accelerate financial opening up, firmly attracted overseas capital and financial institutions with its huge market scale and great market potential, and improved its capacity of optimizing factor allocation and its economic efficiency. In 2019, China’s financial regulators announced around 30 policy measures for the opening up of many sectors including banking, security, insurance, credit, payment and financial market, and most of such policies have already been implemented. It was also in this year that the RMB-denominated Chinese government bond and policy-based bank bonds were included into the Bloomberg Barclays Indices. Among the three international stock market indexes, the S&P Dow Jones Indices’ inclusion factor of A share reached 25%; the inclusion factor of FTSE Russell indices reached 15% after the second batch of the first phase was completed; MSCI’s inclusion factors of the large-cap share, GEM share and mid-cap share of A share reached 20% respectively.

By the end of 2019, the RMB Internationalization Index, a comprehensive indicator used to measure the use of RMB in international economic activities, reached

3.03, which grew by 13.2% year-on-year and maintained its orientation among global economic and trade structural changes and international currency landscape adjustments. A decade ago, RII was only 0.02, which almost means that RMB was not used in the international market at all. Now, RMB's share in international payment ranks sixth in the world1, and RMB is a main currency for pricing and settlement in international trade, investment and financing, and a major international reserve currency.

In 2019, RMB internationalization showed the following features. First, RMB's use in financial pricing and settlement was strengthening and rebounding. While global trade shrank and China's import and export grew at a low speed, cross-border RMB receipt and payment under the current account rose against the trend to 6 trillion yuan. Denomination of RMB in commodity trade, including precious metal, crude oil and iron ore, made breakthroughs. RMB's share in global trade settlement reached 2.41%, up by 17.9% year-on-year. Second, international financial denomination and transactions remained the key driver of RII growth. In 2019, RMB's comprehensive share in international financial denomination and transactions reached 4.72%, growing by 15.2% on the basis of 2018. Foreign direct investment in RMB rose steadily, which had decisive significance; however, RMB direct investment and RMB international credit showed apparent seasonal fluctuations. Third, RMB's role as an international reserve currency was consolidated. Over 60 central banks worldwide have announced to directly or indirectly hold RMB-denominated assets. Statistics from the IMF indicate that at the end of 2019, the size of official RMB foreign exchange reserves reached 217.67 billion dollars, accounting for 1.96% of all official foreign exchange reserves. RMB's relative share in the SDR was 10.54%, slightly lower than RMB's weight of 10.92% in the SDR basket identified by the review in 2015.

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 in international trade, investment and financing, and a major

[1] Data from SWIFT indicates that RMB's share in the global payment market was 1.94% in December, 2019.

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 the US dollar dominates the global reserves while other major currencies catching up, RMB needs to undergo a long and tortuous process to 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.

The theme of RMB Internationalization Report 2020 is "How does Shanghai develop into a global financial center". The report systemically demonstrates the necessity and urgency for Shanghai to develop into a global financial center. While revealing the logical relationship between the development of a global financial center and RMB internationalization, the research team chose different perspectives, such as the world and China, history and reality, opportunities and challenges, to carry out comprehensive and in-depth discussions on the model selection, basic conditions and development strategies for Shanghai to develop into a global financial center. We believe that high-quality economic development and high-level financial opening up will provide a solid basis and long-lasting momentum for RMB internationalization, and their inherent natures, including high efficiency, orderly development and inclusiveness will determine the future of RMB internationalization. Shanghai has developed a profound basis in financial deepening and innovative development since the Reform and Opening Up, and it is equipped with favorable conditions to become a scientific innovation center, an economic center, a financial center, a trade center and a shipping center. Therefore, Shanghai should take the opportunity of developing into a global financial center and shoulder the glorious responsibility of leading China's high-quality development and high-level opening up. The report stresses that in developing into a global financial center, Shanghai should stick to the model featuring synergetic development of "five centers", enable financial service to service the real economy, adhere to market-based and internalization reform and continue to improve its global competitiveness and influence. It should continuously improve the doing-business environment, gather high-caliber enterprises and talents, attract excellent global capital and superior resources, pursue scientific advances, lead global industrial upgrading and promote common development. It should leverage its fin-tech and pilot privileges to develop a financial regulation system that encourages innovation and balances risks, so as to improve its capacity to handle speculation attacks and manage major risks, and develop into a global financial center with Chinese characteristics.

Previous studies show that issuing countries of main international currencies under the Jamaica international currency system, to certain extents, meet the following descriptions: they have strong comprehensive economic power, high trade statuses, stable currency value, high degree of free capital flow and strong macro management capacity. The historical experiences of sovereign currencies' internationalization indicate that though the dollar, the euro, the pound and the yen have chosen different internationalization paths and made varied internationalization achievements, they have shown surprising consistency during the process that they grew into an international currency. It should be noted that any emerging currency power is always based on strong economic strength and a high trade status. Countries that took the lead in the Industrial Revolution all became economic and trade powers. During this process, every country had their major cities developed rapidly, which developed into the economic, trade and financial centers of their countries, and later upgraded into major global financial centers as their currencies internationalized.

Countries that completed the industrial revolution first realized leapfrog economic development due to technological advances. On one hand, they improved their comprehensive economic power; on the other, they sharpened their trade competitiveness. Economic growth and international trade accumulated enormous wealth, created investment and financing needs, promoted development of the domestic financial market and financial institutions, and promoted the formation of domestic financial centers. Financial development further facilitated industrial growth and upgrading, and thus consolidated the country's position as an economic and trade power.

Trade powers not only held large shares of global trade, but also had higher bargaining power. As a result, the currency of this country was more often used as the currency for denomination and settlement. Trade led foreign direct investment growth, and drove the development of other financial services, such as international settlement, insurance, credit and guarantee. When more non-residents entered the financial market of this country for forex trading, bond investment and financing, and other credit activities, they increased the use of this country's currency in international financial transactions, and at the same time raised the opening up level and global influence of this financial center. When non-resident investors were positive about a country's economic outlook, they had a stronger motivation to hold this country's currency. If non-resident investors could invest in safe assets or do risk hedging conveniently in this country's financial market, this country can improve its currency's role as an international foreign reserve currency and push forward the development of a global financial center.

We are now at the crucial stage of the fourth industrial revolution. By developing a global financial center, integrating multiple resources, and promoting scientific advances, economic growth, trade development and financial deepening, we might make up for the deficiency of RMB internationalization. Moreover, through the use of the aggregation effect, size effect and spillover effect of central cities, the development of a global financial center can lead China's high-quality economic development and high-level financial opening up, enhance overall economic strength, improve China's trade status and right of speech, and provide safeguard for long-term development of RMB internationalization.

Shanghai is equipped with favorable conditions and policy basis for developing into a global financial center. Shanghai has unique geographical advantages, and it used to be the top financial center in the Far East in history. In the 1980s, Shanghai was the largest economic center in China, and one of the first coastal Chinese cities opening up to the world. Shanghai has always been the frontline of China's financial reform and financial opening up, and it has continuously pushed forward the development of an international economic, trade and shipping center. The Regulations of Shanghai Municipality on Promoting the Development of an International Financial Center approved in 2009 provided legal basis for Shanghai's financial internationalization. The Action Plan on the Development of Shanghai International Financial Center (2018-2020) makes clear that by 2020, Shanghai will develop into an international financial center that matches China's economic strength and RMB's international status. In the GFCI released in September, 2019, Shanghai surpassed Tokyo for the first time to become one of the top five international financial centers.

However, from the perspective of leading China's high-quality development and high-level opening up, Shanghai still faces many challenges to develop into an international financial center. First, Shanghai should learn from the experiences of London, New York, Frankfort and Tokyo, and push forward RMB internationalization through the development of a global financial center. Shanghai should stick to market-based and internationalization reform, and strive to sharpen its international competitiveness in areas of taxation, law-based governance, infrastructure and other sectors related to doing-business environment. As a key city in the Yangtze River Economic Belt, Shanghai should leverage its advantages in terms of geographical location, shipping, trade, finance, economy and scientific innovation, and gather high-caliber domestic and overseas enterprises to strengthen its status and influence. It must gather superior resources, strengthen the market functions, develop the "Shanghai price" with global leadership and improve the financial market's ability to allocate global resources.

Second, Shanghai should face up to its advantages and strive to transform its existing advantages into the accelerator of the international financial center development. Strong national economic strength, superior geographical location, complete financial infrastructure, market with strategic fintech foundations and national factors, and the pilot policies for FTZs are all advantages that Shanghai should make use of. For example, Shanghai should transform the rich fintech outcomes into new engines for financial upgrading, new paths for finance to serve the real economy, new opportunities for inclusive financial development and new instruments against financial risks, so as to develop Shanghai into a leading domestic fintech center with global competitiveness.

Third, we should stick to synergetic development of five centers, strive to innovate and develop Shanghai into a competitive global financial center with unique features. China's socialist system is stable and consistent, and we can gather strength to fulfill key tasks, therefore, Shanghai's development into a global financial center can be steady, progressive and controllable. Besides, the key national strategic support for Shanghai is unparalleled in any other central cities in the world. The Beijing-Tianjin-Hebei Regional Development, the Yangtze River Delta Development, the Guangdong-Hong Kong-Macau Greater Bay Area Development, the Belt and Road Initiative and other strategies provide financial service needs for Shanghai, and the synergetic development of five centers brings Shanghai comprehensive advantages. In the process of developing a global financial center, we should follow some basic principles, including maintaining long-term steady and high-quality economic development, attracting global resources with the enormous market and economic vitality, taking the development of a global RMB asset management center as a core task to improve China's right of speech and pricing power in the global financial system, sticking to market-based reform and enabling the market to play the decisive role in developing a global financial center, strengthening the government's role as a service provider, firmly pushing forward opening up, improving risk management capacity and holding the bottom line.

Since the beginning of 2020, the COVID-19 epidemic has stricken the global economy, international trade and the global financial market. The Fed launched the unlimited quantitative easing policy to tackle the extremely uncertain economic outlook, while China retained sufficient policy space and policy instruments in the 2020 Government's Work Report. Epidemic control and economic reopening vary from country to country. The IMF and market institutions generally predict a sharp shrink of the global economy, and China is highly likely to become the only G20 member country with a positive growth. Global industrial chain restructuring is more impacted by national interests and public health security, and traditional economic and trade activities are diverting to online cloud platforms, creating an increasing demand for new-type infrastructure such as 5G network and data centers. Recently, China ended the judicial proceedings with EU caused by the market economy status under the WTO framework. MOFCOM’s public commercial information platform shows that the 3rd China International Import Expo will be convened in Shanghai in November, and now overseas cloud road show and domestic merchant road shows are cropping up. So far, the contracted exhibition area has exceeded over 90%, and the expo is officially open for domestic and overseas professional spectators to register.

The developing RMB internationalization will undoubtedly face more new twists and challenges. But no longer how long the dark night is, the sun will eventually rise. As long as we stay focused and keep our feet on the ground, we can always find the way out among the present dangers and difficulties. By forging ahead and facing up to the challenges, we can create opportunities among crises and open up new dimensions. As an ancient poem goes, from whichever direction the winds leap, I remain strong, though dealt many a blow. We will develop Shanghai into an international financial center, and push forward China’s high-quality economic development and high-level financial opening up on all fronts. The future of RMB internationalization is bound to be promising!

Part II RMB internationalization index

2.1 The current situation of the RMB internationalization index

2.1.1. RMB internationalization is making steady progress, and the RII shows evident fluctuations.

In the past 10 years since the beginning of RMB internationalization, RMB's marketization has deepened and its global recognition has escalated; RMB internationalization has withstood whole-process tests and achieved major development progress. As we stepped into 2019, global economic development faced great challenges, with continued weakness in trade and investment, soaring financial vulnerabilities, a resurgent wave of interest rate cuts, rising sources of turbulence and risk points, and synchronous economic slowdown in both developed economies and emerging markets. Faced with the complicated and changeable international situation, China stuck to the new development philosophy, focused on supply-side structural reform, accelerated the opening up of the financial market, actively promoted high-quality development, stabilized economic and financial operation, made progress and improved quality of economic and financial operation, and thus laid a solid foundation for RMB internationalization and fostered new opportunities and momentum amidst risks. In general, RMB internationalization was stable with progress, trade settlement and direct investment in RMB realized steady growth, RMB's use in financial denomination and settlement strengthened significantly and RMB's status as an international reserve currency was further consolidated. At the end of 2019, RII was 3.03 (Figure 1), a year-on-year increase of 13.2%, which is on an upward trend. Compared with the previous trend of steady rises, the RII is showed more fluctuations and larger adjustments.

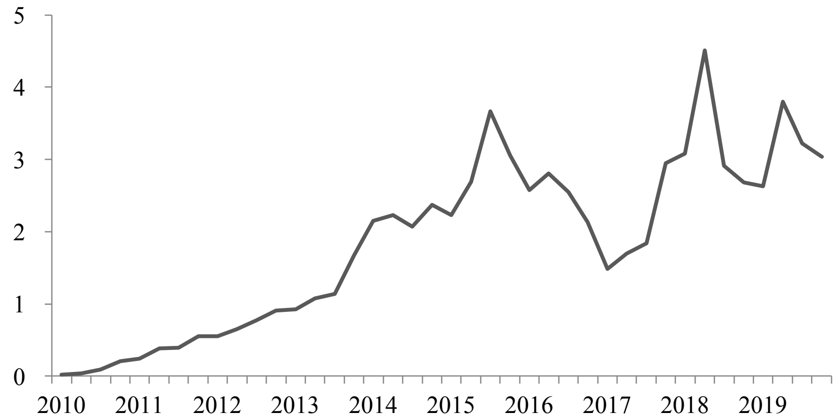


Figure 1 RMB Internationalization Index

2.1.2 RMB internationalization is rising among fluctuations under the capital and financial account

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 2019, the comprehensive indicator of RMB usage in international financial denomination and settlement reached 4.72%, 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 2019, the total volume of global RMB loans and deposits was depressed, with adjustments. The share of international RMB credit in the global market was 0.56%, down 4.71% on a yearly basis; RMB deposit volume in main offshore markets decreased by around 2.5% annually. The issuing scale of RMB- denominated global bonds fell back. RMB-denominated international bond and bill balance was 96.558 billion dollars, accounting for 0.38% of the global total and a decrease of 0.21% from 0.59% in 2015. As China accelerated its pace to integrate into the global economic system, RMB direct investment grew rapidly and aggregated 13.8 trillion yuan. In 2019, against the backdrop of continued global direct investment depression, RMB direct investment volume was 2.78 trillion yuan, a year-on-year increase of 4% against the global trend.

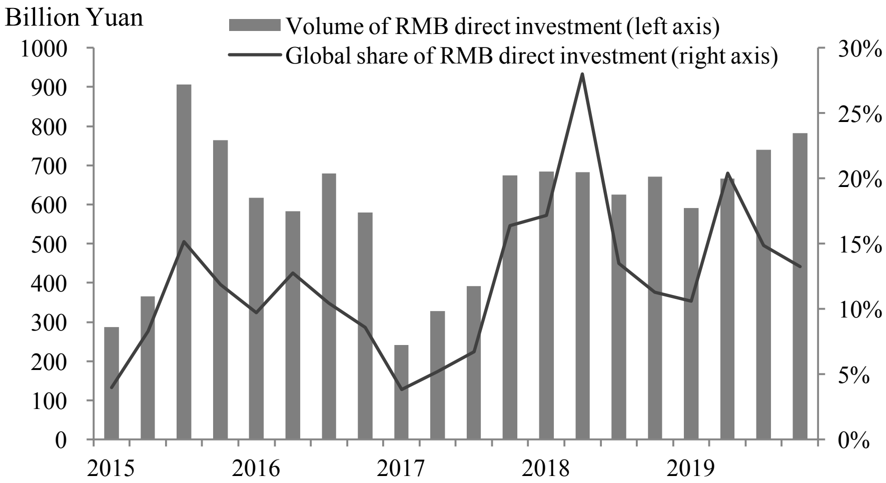


Figure 2 Global Share of RMB Direct Investment

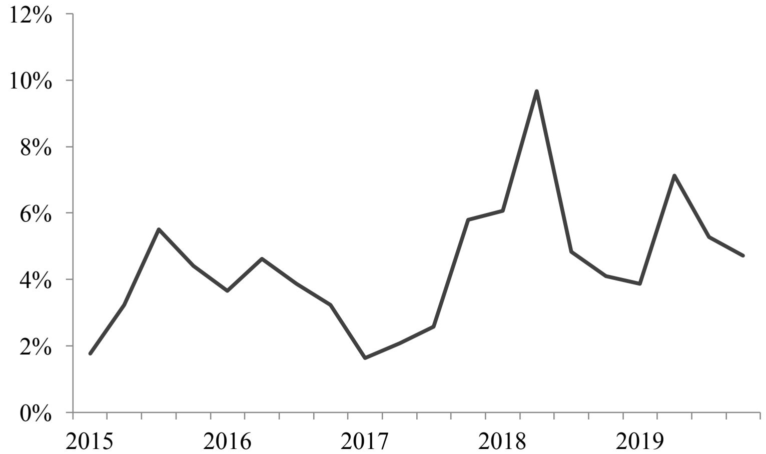


Figure 3 Comprehensive Indicator of RMB Use in International Financial Denomination and Settlement

2.2 Main impetuses for RMB internationalization

Over the past 10 years, due to the rise of China's economic strength and the deepening of Reform and Opening Up, RMB internationalization seized the historic opportunity of the changes of the global landscape, and developed steadily as a result of market actions and policy effects. RII kept an ascending trend. In 2019, China's economy kept growing steadily, financial opening up entered a fast track, policies and infrastructure for RMB cross-border use continued to improve, and global monetary policies began to shift. All these factors supported RMB internationalization to move forward.

2.2.1 China's steady economic growth provides a firm foundation for RMB internationalization

Despite the complicated domestic and overseas situation and growing destabilizing factors and uncertainties, China's economy grew steadily and showed strong resilience. GDP grew by 6.1%, ranking among the top in the world. As external demand volatility heightened, household consumption continued to upgrade, and remained the top driving force of economic growth for 6 consecutive years, contributing to 57.8% of economic growth and playing a more prominent role in stabilizing the economy and growth. China actively pushed forward industrial transformation and upgrading, high-tech manufacturing and the strategic emerging industry both grew by over 8%, the operating revenues of enterprises in the strategic emerging service industry, the science and technology service industry and the high-tech service industry all grew by 12%, and traditional driving forces was being replaced by new ones at a faster pace. In 2019, protectionism was on the rise globally, and the trade frictions between China and the US were severe. Against this background, China's foreign trade grew by 3.4%, disbursement of foreign capital added up to 941.5 billion yuan, ranking the top among developing countries and second in the whole world. Among global economic downturns and turmoils, China maintained its position as a flagship, achieved steady growth, continued to improve development quality, and showed strong resilience and vitality. This has granted RMB and RMB-denominated assets more global confidence and recognition, and infused strong strength into RMB internationalization.

2.2.2 The accerating opening up and international integration of China's financial system provides momentum for RMB internationalization

In 2019, following the principle of "early action and quick steps", China accelerated the two-way opening up of its financial industry and prudently pushed forward capital account convertibility to deepen RMB internationalization. China formulated the 11 new measures to accelerate the opening up of detailed financial sectors, RQFII cancelled the quota caps, and China's financial sector opened wider to the world to support overseas investors to participate in domestic financial transactions.

More foreign-funded financial institutions have set up branches and carried out RMB business in China, and expanded the holdings of RMB-denominated assets. Standard & Poor's was permitted to enter the CIBM to conduct all categories of credit rating services, attract more overseas issuers and investors to enter China's market and meet the diversified needs of international investors to allocate RMB-denominated assets. At the same time, China's capital market integrated with the international market at a faster pace, MSCI, FTSE Russell, S&PDJI, Bloomberg Barclays Global Aggregate and other main international indicators were absorbed, their authority steadily improved and foreign capital thus rushed in to hold more RMB-denominated financial assets. By the end of 2019, the total holdings of RMB-denominated stocks and bonds in the hands of overseas institutions and individuals added up to 4.4 trillion yuan, a year-on-year increase of 52.4%. The opening up of China's financial sector further improved the degree of RMB's free use and expanded the range of RMB's use, and thus strengthened RMB's use in financial denomination and settlement.

2.2.3 The improvement of policies and infrastructure for cross-border and international use of RMB has removed barriers for RMB internationalization

International cooperation, central government policies, local innovation and sectorial exploration have jointly improved the feasibility and convenience of RMB's international use. First, deepening international cooperation has reduced the barriers for RMB's use overseas. Myanmar has officially recognized RMB as an settlement currency in international payment; Pakistan has allowed Standard Chartered Bank to establish local RMB settlement and clearing institutions; China has established and improved bilateral RMB cash transportation mechanisms with Mongolia, Laos, Russia and other countries. In 2019, China established RMB clearing banks in Tokyo and Manila, and designated Mitsubishi UFJ Bank as the local RMB clearing bank to provide support for overseas RMB business. Second, policy improvement and system upgrading has supported overseas investors to participate in RMB transactions. The Ministry of Finance made clear the application procedures and documentations for overseas accounting firms to provide auditing services for panda bonds, the "T+3" settlement method was added to the settlement period of overseas institutional investors' bond transactions, and the primary market information platform of the Bond Connect was launched with an English channel. These factors have provided more feasible, transparent and convenient conditions for overseas institutional investors to participate in RMB financial transactions. Third, regional policy exploration and innovation has breathed new life into RMB's international use. The number of FTZs grew to 18 nationwide to strengthen pilot programs of cross-border RMB business, and FTZ development and RMB internationalization are becoming "golden partners". Guangxi Province is actively developing into a zone of financial opening up for ASEAN, it encourages the use of RMB and supports the development of offshore RMB business in ASEAN. The Guangdong-Hong Kong-Macau Greater Bay Area is orderly advancing the interconnectivity of the financial market and gradually expanding the scale and business of RMB cross-border use. Besides, Beijing is further expanding the opening up pilot programs of the service industry to support overseas investors to make RMB direct investments and use RMB in the transactions and transfers of the state-owned property right of domestic enterprises. The first cross-border RMB settlement business facilitation pilot program for foreign contracted project-related enterprises was launched in Beijing. Fourth, infrastructure for cross-border RMB settlement was improving. The number of participants of Cross-border Interbank Payment System (CIPS) kept growing, and by the end of 2019, the business of the system had covered 167 countries and regions, providing service for over 3000 corporate banking institutions.

2.2.4 The new wave of interest rate cuts has added to the appeal of RMB international investment

Since the latter half of 2019, global economic growth has faced great downward pressure. The FED cut interest rates three times, the ECB relaunched the Quantitative Easing policy, the negative interest rate dipped to a historical low of -0.5%, and over 40 central banks have jumped on the bandwagon of another quantitative easing. Against the background of low interest rates and quantitative easing globally, China's monetary policy stayed at a normal range, its interest rate and exchange rates remained strong, and RMB has become a safer and more profitable financial asset option for international capital. Especially amidst global financial turmoil, China's economy grew steadily, RMB-denominated assets began to show hedging features, and overseas entities and capital accelerated their pace to enter China's financial market. According to statistics of the IIF, the total volume of foreign capital flowing into China's stock and bond markets in 2019 was 134.41 billion dollars, accounting for 58% of the total inflow of foreign capital into emerging economies' capital market. In a word, RMB's appeal on the asset side is rising significantly.

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. In 2019, RMB internationalization made steady progress, but slowed down generally and faced some external challenges and endogenous defects.

2.3.1. The external environment was more severe

In 2019, the international situation became more complicated and severe, with rising unilateralism and protectionism, intensified trade frictions and growing geopolitical risks. Global trade growth underperformed economic growth, direct investment contracted for four consecutive years, and the external environment for China and RMB internationalization was intense and changeable. The US frequently suppressed China, which disturbed RMB's exchange rates and its use. In 2019, RMB's exchange rates and market sentiments were sensitive to China-US trade frictions, with the exchange rate fluctuations staying at around 4.44%, which was higher than the average of the previous year. From August to early September, as China-US trade frictions elevated, the US Treasury designated China as a currency manipulator, RMB's exchange rate against the dollar exceeded 7.18, and RMB's share in international payment once fell to the sixth from the fifth in the world.

2.3.2 Global currency competition grew more intense

Main currencies relied on low interest rates, or even negative interest rates to consolidate their monopoly in global liquidity supply. In 2019, as the FED cut interest rates three times, the growth of dollar liquidity supply (bonds plus credit) returned to 5.7% from 3.7% in Q1. With the negative interest rate, the euro became the first choice of global debt, and its liquidity supply growth stayed at around 9%. In contrast, RMB's overseas liquidity supply grew slowly, or even shrank due to the squeeze of main currencies such as the dollar and the euro. Besides, because of network externality, international entities have a strong path dependence on the main currencies including the dollar and the euro that cannot be broken through. In particular, the greater the downward pressure is, and the greater the turmoil in the international financial market is, the more stable the dollar's monopoly is. In the future, the key to RMB internationalization is how to break through the inertia of using main currencies including the dollar, develop the network effect of RMB and improve the global financial resource allocation capacity with Shanghai international financial center.

2.3.3 Offshore RMB market development is yet to deepen

In recent years, the driver of RMB internationalization has shifted from trade settlement to trade and finance, but the international circulation path is not smooth enough. RMB flowing out through trade and direct investment did not settle down and transform, but was exchanged for main currencies such as the dollars, and overseas RMB lacked channels for preservation and appreciation. The offshore market could have provided capital pools and investment and financing platforms for international use of RMB. However, it fell into a downturn after 2015. By the end of 2019, the volume of RMB deposit in Hong Kong was 632.207 billion yuan, down 35.6% on the basis of 2015. The markets in Taiwan, Singapore and Korea all declined to different extents, and as a result, overseas RMB dried up. In general, the international circulation path of RMB is incomplete, and the offshore market is yet to reinvigorate and develop.

2.3.4 Improving the financial management capacity is crucial

From the changes of RII we can find that financial transactions create a strong driving force, but also feature large fluctuations and high hidden risks. In a tough and complicated international environment, China must enhance financial risk prevention and settlement in order to accelerate financial opening up and push forward RMB internationalization. In the international use of RMB, there are motivations both for speculation and real trade, onshore and offshore markets resonate, prices directly impact the currency choices and capital flow of market players, and panic may sometimes occur. This requires China to have necessary risk assessment and handling capacity, a complete financial regulation system and internationally compatible expectation guiding capacity. In the future, improving the financial governance system and giving play to macro prudential management are major safeguards for RMB internationalization, or even China's financial opening up.

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 Figure 4). In 2019, the US economy reversed after jumping at the beginning, household consumption slowed down, commercial investment stayed weak, financial deficit and government debt hit record highs, and the FED cut interest rates three times and relaunched quantitative easing. But as the barometer of the global crisis, the more volatile the international economic situation is, the high the international demand for the dollar is. Contrary to the US' economic downturn, the international index of the dollar was 50.85, down 0.22 on a yearly basis. The Eurozone was beset with economic and political troubles internally and externally, and was trapped in the negative interest rate territory. All member countries experienced synchronized economic slowdown, even though consumption and employment tended to perform well, external demand continued to shrink, dimming the development prospect. The international status of the euro bottomed out, its internationalization index was 26.28 an increase of 0.13 compared to the end of the previous year, showing a lack of recovery momentum. The Brexit process was full of twists and turns, the UK's politics and society fell into division never seen before, which heavily weighed on the economic prospect. UK's manufacturing and consumption plummeted, and uncertainties dragged on the pound's performance. The internationalization index of the pound was 3.92, wandering at a low level. Japan's economy lacked momentum due to shrinking external and internal demand and the yen's appreciation. The lack of external demand caused continuous decreases of export, the increase of consumption tax caused sluggish consumption growth, and investment and consumption confidence both took a hit. However, international turbulence encouraged risk aversion, and the international demand for the yen was passively pushed up. The internationalization index of the yen was 4.63, up 0.37 compared to the end of the previous year, and the international status of the yen was stable with progress.

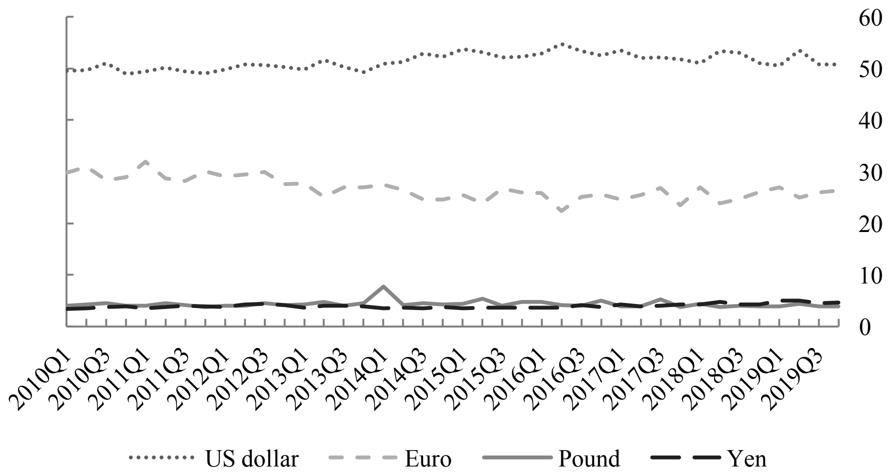


Figure 4 Changes of Internationalization Indices of Major Currencies

Part III Status Quo 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 2019, RMB cross-border trade settlement grew steadily to 6.04 trillion yuan, 930 billion yuan higher than that of 2018, marking a year-on-year increase of 18.2%. RMB cross-border trade settlement represents 19.1% of China's trading volume of goods and services, registering a year-on-year increase of 4.3%.

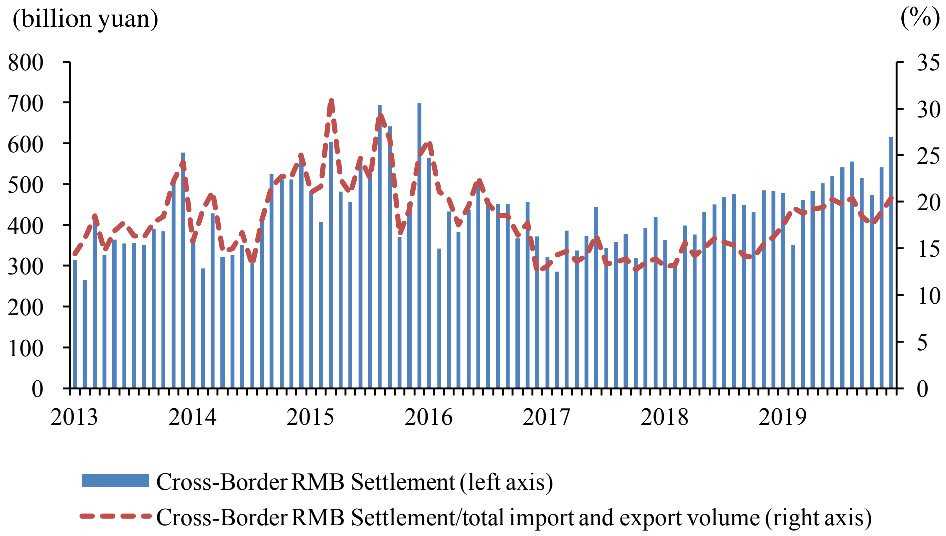


Figure 5: Trading Volume of Cross-Border RMB Settlement

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

3.1.2 Trade of Goods Makes up the Majority of Settlement and Trade of Service Grew Significantly

In 2019, cross-border trade of goods that were settled with RMB achieved a 16.1% year-on-year increase to 4.25 trillion yuan; the total sum accounted for 70.4% of the total cross-border RMB settlement in 2019. Trade of services settled with RMB was up by 23.4% to 1.79 trillion yuan; it made up 29.6% of the cross-border RMB settlement. From 2015 to 2019, the annual growth rate of trade of services settled with RMB over the past 5 years was 21.7%, significantly higher than the average annual growth rate of RMB settlement in cross-border trade.

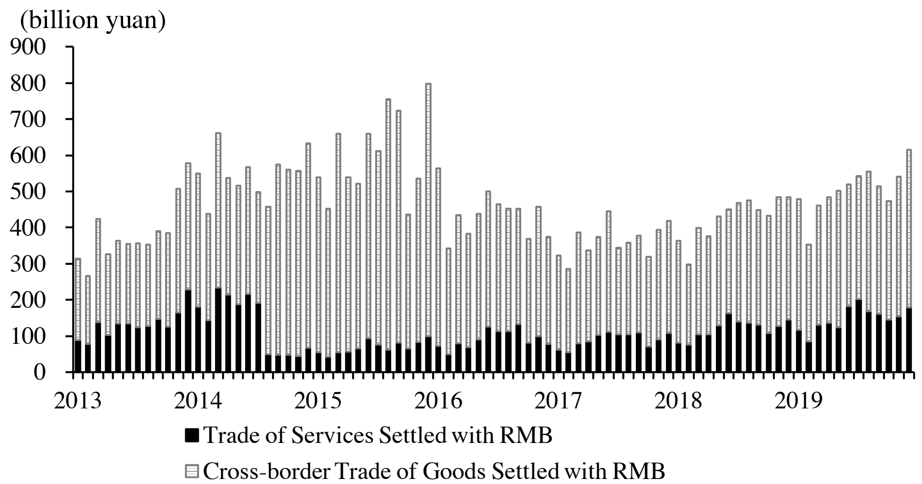


Figure 6 Trade of Goods and Services Settled with RMB

Source: People's Bank of China

3.1.3 Cross-border RMB Business Continued to Grow while Payments and Receipts Remained Basically Balanced

In 2019, the combined sum of cross-border RMB receipts and payments increased to 19.7 trillion yuan, up by 23%. The sum of cross-border RMB receipts and payments under the current account was 6 trillion yuan, a year-on-year increase of 18%, while that under the capital account was 13.6 trillion yuan, a year-on-year increase of 26%. The cross-border use of RMB that under capital accounts has become more active, making it the main driver for the growth of cross-border RMB receipt and payment business. In 2014, after expanding the trade RMB settlement to include receipts and payments of RMB settlement for capital financial transactions, surpluses and deficits tended to alternate in cross-border RMB receipts and payments due to the great volatility of financial transactions.After the receipts-to-payments deficit in 2016 and 2017, 2018 and 2019 witnessed a small receipts-to-payments surplus, as the ratio of cross-border RMB receipts to payments reaches 0.97. The total sum of receipts was 10 trillion yuan, and the total sum of payments 9.7 trillion yuan. The figures show that the scale of RMB outflow and backflow continued to expand, and the payments and receipts remained basically balanced.

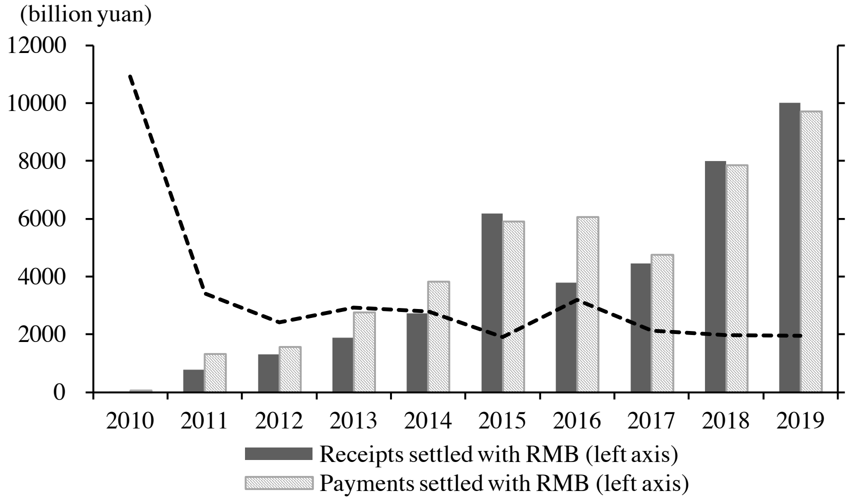


Figure 7 The Ratio of Receipts to Payments in Cross-Border RMB-settled Trade

Source: People's Bank of China

3.2 RMB-denominated Financial Transactions

3.2.1 RMB-settled ODI

3.2.1.1 ODI and RMB-settled ODI both Decreased

In 2019, China's ODI reached 674.4 billion yuan, down by 28.7% compared to 2018. RMB-settled ODI reached 0.76 trillion yuan, showing a steep drop of 347.9 billion yuan compared to 2018.

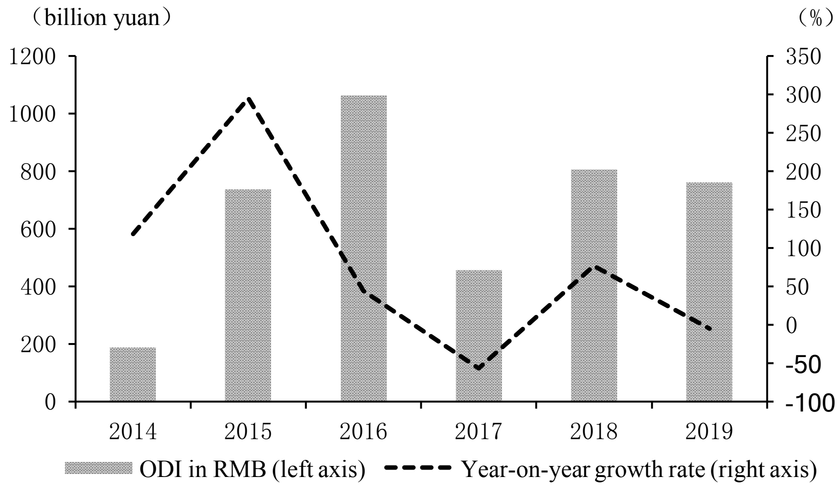


Figure 8 Outbound Direct Investment(ODI) in RMB

Source: People's Bank of China

3.2.1.2 Foreign Direct Investment(FDI) Decreases while RMB-settled FDI Rises

In 2019, FDI in China was 1073.8 billion yuan, showing a decrease of 30.5% from 2018. RMB-settled FDI reached 2.02 trillion yuan, up by 8.6% from 2018.

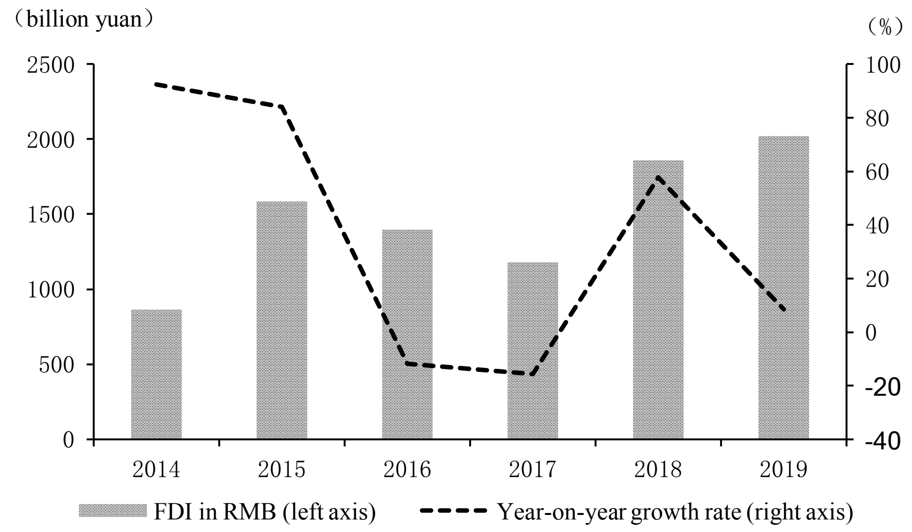


Figure 9 Foreign Direct Investment(FDI) in RMB

Source: People's Bank of China

3.2.2 Investment in RMB-denominated Securities

3.2.2.1 The Offshore RMB-denominated Bond Market has Developed Steadily, while the Panda Bond Issuance has Shrunk

In 2019, the dim sum bond issue reached 198.82 billion yuan, an increase of 159.34% over last year. The Ministry of Finance issued 17 billion yuan of national bonds and 9 billion dollars worth of dollar-denominated sovereign bonds at abroad. Affected by changes in domestic and foreign monetary policies, the issuance of panda bonds has fallen sharply. In 2019, a total of 22 entities in the Chinese bond market issued 40 rounds of panda bonds, totaling 59.840 billion yuan and representing a significant decrease of 36.9% compared to 2018.

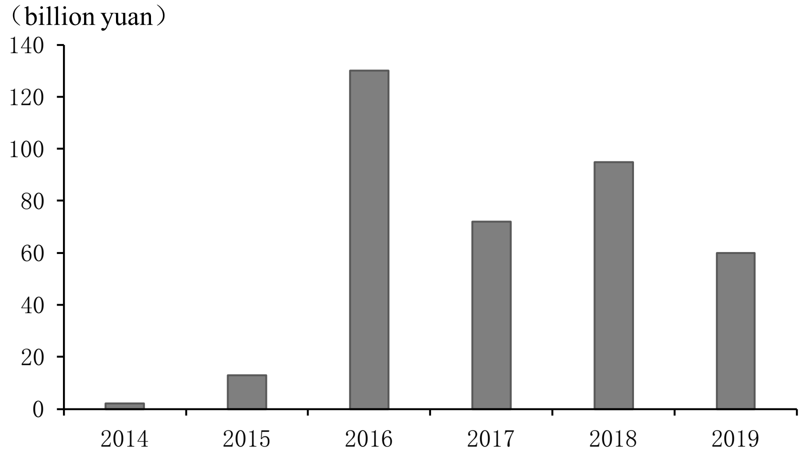


Figure 10 Issuance Details of Panda Bond

3.2.2.2 The Stock Market Financing Function was Enhanced, and the Capital Market was Accelerated in its Opening-up

In 2019, the stock market structure was further improved, with its financing function being enhanced. The Shanghai Composite Index, Shenzhen Component Index, and the Growth Enterprise Market Index all rose. The domestic stock market of various non-financial enterprises financed 347.8 billion yuan, down by 3.55% year-on-year.

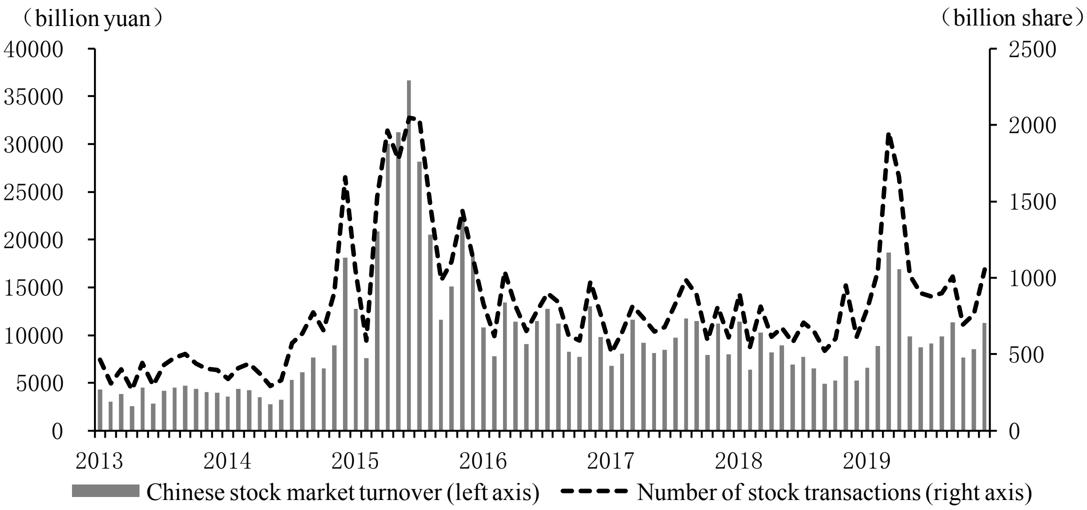


Figure 11 Chinese Stock Market Turnover

Source：CEIC

The capital market has accelerated its openning-up to the outside world.The Foreign Exchange Bureau lifted the restrictions on investment quotas for QFII and

RQFII, and the CSRC clearly stipulated the timetable for lifting the restrictions on foreign equity ratios in advance. Interchange measures have been successively implemented including the Shanghai-London Stock Connect, the China-Japan ETF interconnection, and the Shanghai-Shenzhen-Hong Kong Stock Connect southbound investor identification codes. The first phase of the three major international mainstream indexes "NASDAQ A" of MSCI, FTSE Russell, and S&P Dow Jones has come to an end. The capital increase brought by A shares reached about 540 billion yuan.

3.2.2.3 The Development of the Derivatives Market Made New Breakthroughs

In 2019, the futures market has witnessed its rebound significantly. The cumulative trading volume of the national futures market reached 3.962 billion lots, a year-on-year increase of 30.81%, and the total deals reached 290.61 trillion yuan, a year-on-year increase of 37.85%. In 2019, the trading volume of RMB-denominated crude oil futures accounted 69278700 lots, and the holding volume was 14052640 lots, with a turnover of 30.95 trillion yuan, ranking third in the world and second only to WTI crude oil futures and Brent crude oil futures. Rio Tinto and Rizhao Port Group signed the first RMB business in spot trade, marking the beginning of the formation of RMB pricing model for iron ore. After crude oil futures, iron ore futures and PTA futures, rubber futures were listed in Shanghai Futures Exchange and became the fourth foreign-oriented and RMB-denominated futures in China. The “Chinese price” in the fields of agricultural products, energy, precious metals, chemicals, etc. were recognized and widely used in the international market, which will promote RMB to gradually play an active role in line with the economic strength and international economic status of China in the global trading system.

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

Year	Number of transactions	notional principal (Unit: 100 million yuan)
2014	42978	40301
2015	64469	82071
2016	87018	98587
2017	137974	143462
2018	184560	210863
2019	237744	181529

Source: China Foreign Exchange Trade System

In 2019, the total deals in the inter-bank RMB interest rate derivatives market reached 18.6 trillion yuan, a year-on-year decrease of 13.4%. Problems restricted the development of RMB interest rate derivatives market including insufficient liquidity, homogenization of transaction subjects and demands, and inactive basis trading. Among the exchanges with the business of RMB interest rate derivatives, the Hong Kong Stock Exchange, Singapore Exchange, and Chicago Mercantile Exchange (CME) continued the rapid growth of the US dollar against the RMB (USD/CNH) since 2015. In recent years, with the two-way fluctuation of the RMB and the expansion of the cross-border use of the RMB, the exchange rate risk faced by Chinese companies has risen sharply. In the meanwhile, because the fluctuation of major currencies is much greater than the fluctuation of the RMB against the US dollar, the impact of cross-exchange fluctuations on the company is also much greater than the impact of the fluctuations of the RMB against the US dollar. Therefore, we should further accelerate the construction of the RMB foreign exchange futures and options market, increase the development and publication of exchange rate derivatives of more currencies, and provide a powerful risk management tool of the exchange rate.

3.2.2.4 RMB-denominated Financial Assets are Favored by International Investors

At the end of 2019, the balance of domestic RMB-denominated financial assets held by overseas institutions and individuals increased to 6.41 trillion yuan, representing a year-on-year increase of 32.2% and continuing its growth momentum since 2016. Among the RMB-denominated assets held by non-residents, securities account for the biggest share, followed by stocks, deposits and loans. Although foreign residents has increased their holding of domestic RMB-denominated financial assets, the stock of RMB-denominated international bonds and notes as well as its proportion in the global stock of international bonds and notes have declined.

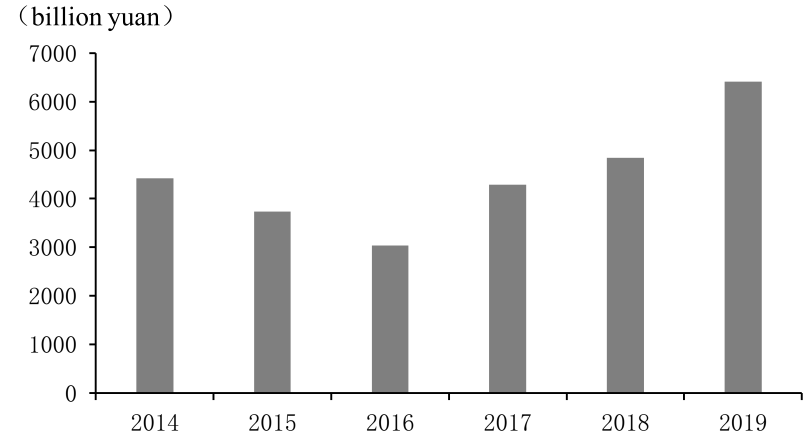


Figure 12 RMB-denominated Financial Assets Held by Overseas Institutions and Individuals

Source：CEIC

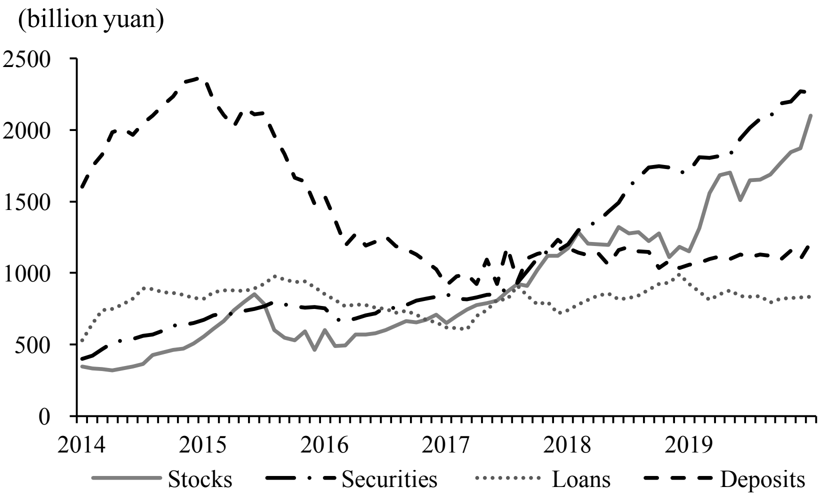


Figure 13 RMB-denominated Financial Assets Held by Overseas Institutions and Individuals

Source：CEIC

3.2.3 RMB-denominated Outbound Loans

In 2019, RMB-denominated overseas loans of domestic financial institutions reached 523.78 billion yuan, up by 3.2%. RMB-denominated overseas loans accounted for 0.351% of total loans by Chinese financial institutions, down by 0.02% compared to 2018.

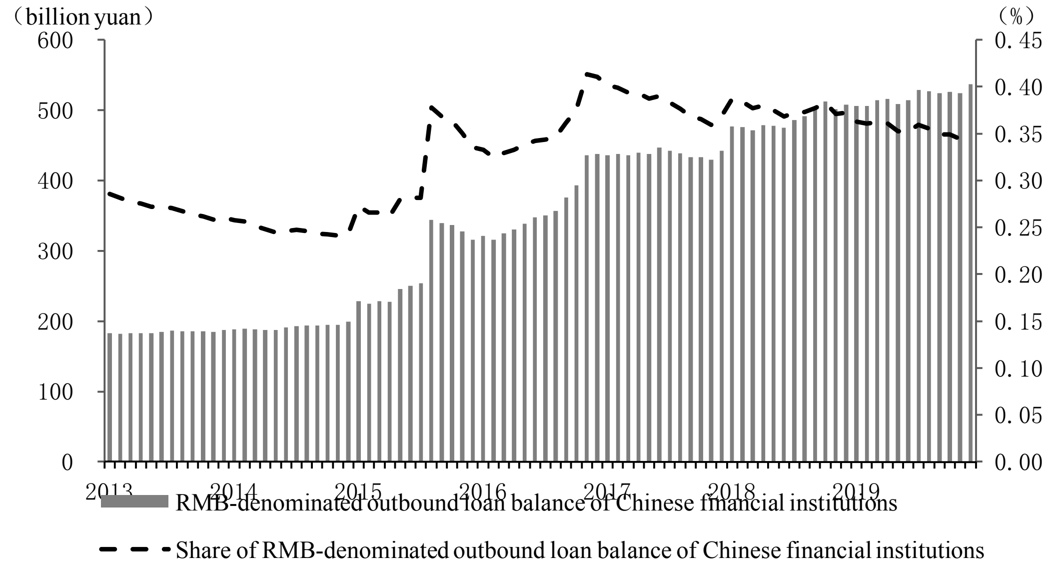


Figure 14 RMB-denominated Outbound Loan Balance and its Share of Chinese Financial Institutions

Source: People's Bank of China

3.2.4 RMB Foreign Exchange Trade

On September 16, 2019, the Bank for International Settlements (BIS) released a triennial survey of the global foreign exchange market. RMB serves as the eighth largest foreign exchange trading currency in the world, and mainland China ranks as the eighth largest foreign exchange trading center around the globe. The foreign exchange market turnover totaled 200.56 trillion yuan in 2019, an increase of 3.93% year-on-year.

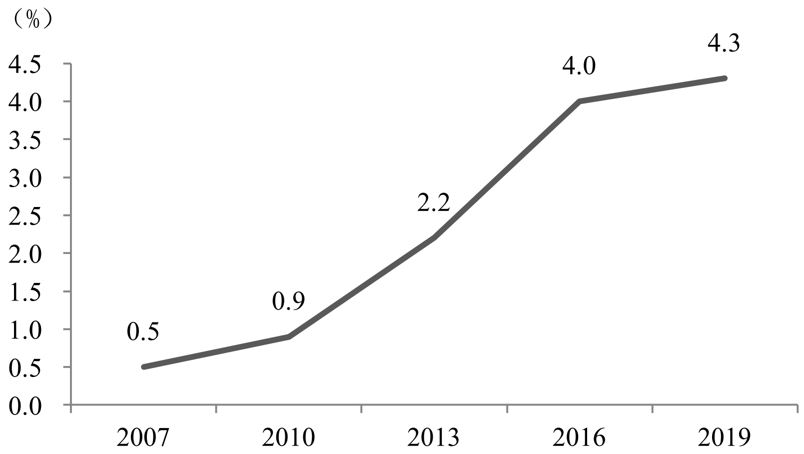


Figure 15 Proportion of Global RMB-denominated Foreign Exchange Transactions (%)

Source: BIS, Bank of China Research Institute

In 2019, foreign exchange spot transactions totaled 78.32 trillion yuan, a year-on-year increase of 6.56%; foreign exchange derivatives transactions reached 122.24 trillion yuan, a year-on-year increase of 2.32%, and the proportion in the foreign exchange market decreased to 60.95%; the inter-bank forex market transactions reached 172.18 trillion, a year-on-year increase of 4.34%; the bank-to-customer market transactions reached 28.38 trillion, a year-on-year increase of 1.54%. Among the foreign exchange derivatives, RMB forward foreign exchange forward transactions amounted to 2.63 trillion yuan, a year-on-year decrease of 26.01%; the total deals of foreign exchange and currency swap transactions reached 113.76 trillion yuan, a year-on-year increase of 3.15%; foreign exchange option transactions reached 5.86 trillion yuan,a year-on-year increase of 3.8%.

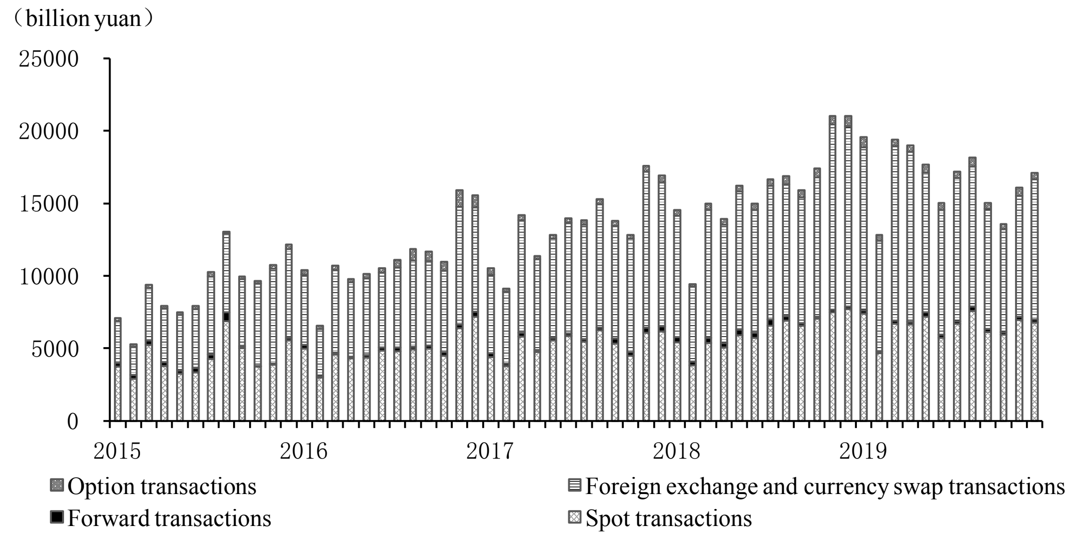


Figure 16: RMB Forex Market Transactions

Source: State Administration of Foreign Exchange

3.3 RMB in Global Foreign Exchange Reserves

As China's economic aggregate accounts for a significant increase in the world's economic aggregate, RMB assets are increasingly favored by central banks of all countries. The proportion of RMB in global foreign reserves keeps rising, and the global foreign exchange reserve management agencies have showed increasing willingness to hold RMB assets. As of the end of 2019, the scale of RMB global foreign exchange reserves increased to US$217.67 billion, an increase of US$14.59 billion from the end of 2018, accounting for 1.96% of foreign exchange reserves. This indicates that the reserve currency function of the RMB has been gradually improved.

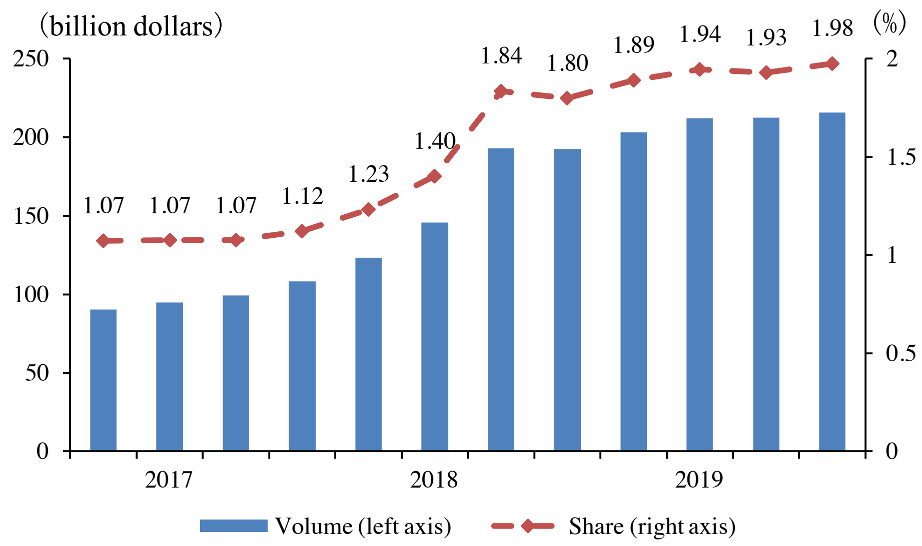


Figure 17 RMB's Size and Share in Official Foreign Exchange Reserves

Source: COFER, IMF

In 2019, the international appeal of the RMB continued to increase. On January 15, the share of the RMB in the foreign exchange reserves of the Iranian Central Bank reached 15%; on January 30, the Central Bank of Myanmar announced that it would include RMB as the official settlement currency for international payments; on May 30, the Czech Central Bank annouced that the RMB was listed as its reserve currency. In January 2019, the Russian Central Bank announced that the value of RMB held in the first half of 2018 increased from 23 billion dollars to 67 billion dollars, and the proportion of RMB in Russian foreign exchange reserves increased to 14.7%; in November 2019, the China Foreign Exchange Trading Center and the Moscow Exchange Group signed a memorandum of understanding in Shanghai, which further deepened the cooperation of the financial markets between China and Russia, and promoted the direct transaction price formation mechanism of RMB-to-Ruble and the settlement of bilateral currencies. According to incomplete statistics, more than 60 countries and regions have included RMB in their foreign exchange reserves.

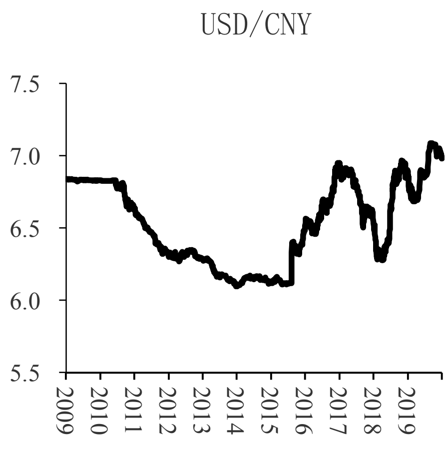
3.4 RMB Exchange Rate

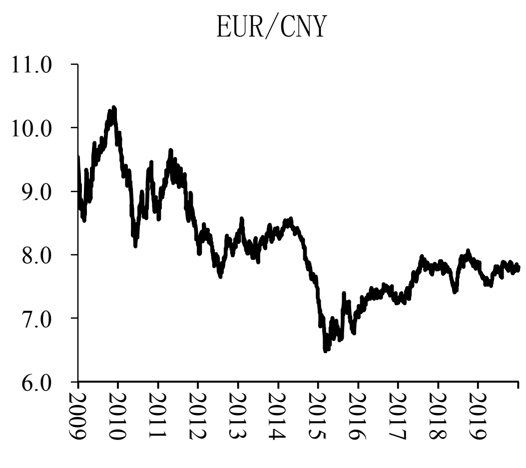
3.4.1 RMB Exchange Rate

In 2019, we continued to promote the market-oriented reform of exchange rate and improve the managed floating exchange rate system based on market supply and demand, adjusted by reference to a basket of currencies. We paid attention to the guidance of expectations, maintained the basic stability of the RMB exchange rate at a reasonable and balanced level, and allowed the exchange rate to play the role of adjustment of the macroeconomic and the automatic stabilizer of international balance of payments.

3.4.1.1 The Currency Exchange Rate against Major Countries is Depreciating

It was obvious that the exchange rates of the RMB against major international currencies depreciated. At the end of 2018, the central parity rate of RMB against the US dollar was 6.9762, down by 1.62% year-on-year; that against the European euro was 7.8155 with an appreciation of 0.41%; that against the Japanese yen was 6.4086 with a year-on-year depreciation of 3.43%; that against the pound was 9.1501 with a depreciation of 5.18%.





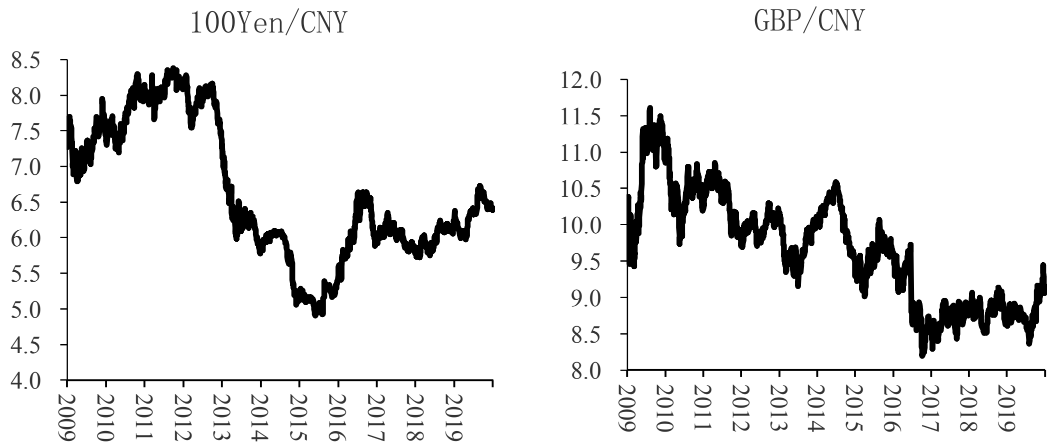


Figure 18 The Central Parity Rate of RMB against Major International Currencies(from 2009 to 2019)

Source: China Currency Network

3.4.1.2 The Real Effective RMB Exchange Rate Fell after Rise

According to the data of the Bank for International Settlements (BIS), the real effective RMB exchange rate in 2019 fell after rise, and it showed a trend of rebound at the end of the year. In December 2019, the nominal real effective RMB exchange rate index of RMB was reported at 114.41, a depreciation of 1.50% year-on-year. The real effective exchange rate index (with inflation factors deducted) was 122.24, up by 1.11%.

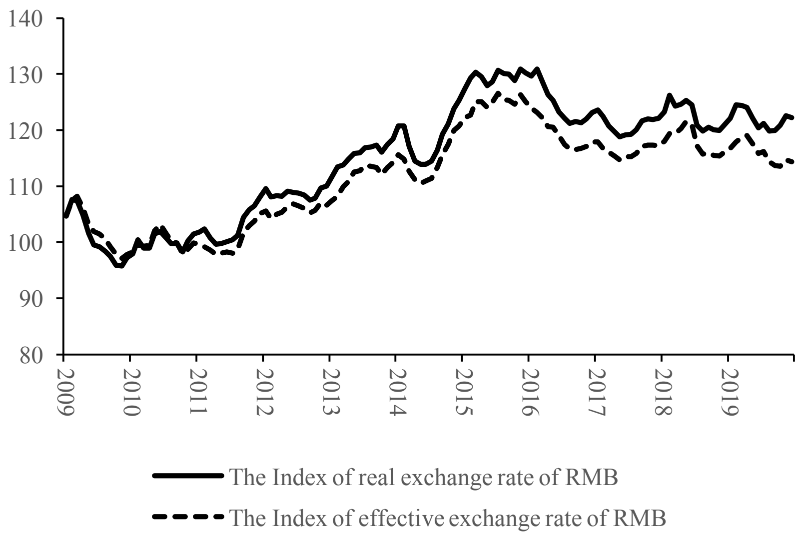


Figure 19 The Trend of the Effective Exchange Rate of RMB

Source: Bank for International Settlements

3.4.1.3 The RMB Exchange Rate Index Fell

At the end of 2019, the CFETS RMB exchange rate index released by the China Foreign Exchange Trading Center was 91.39, down by 2.03% year-on-year; the RMB exchange rate indices of the BIS currency basket and the SDR currency basket were 95.09 and 91.81, respectively, down 1.75% and 1.43% for the whole year.

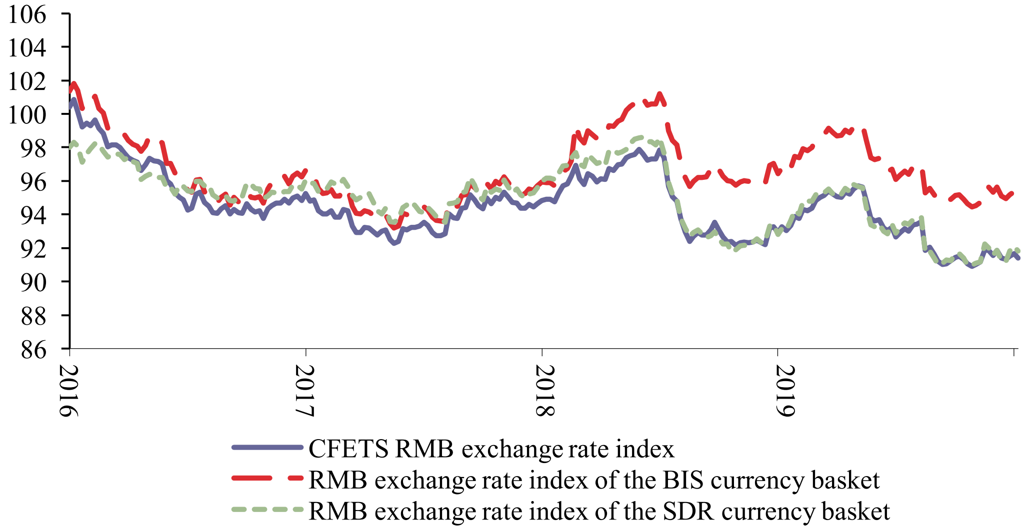


Figure 20 RMB Exchange Rate Indices

Source: CFETS

3.4.1.4 The Two-way Fluctuation of Offshore RMB

In 2019, the trends of CNY and CNH remained basically the same, showing two-way fluctuation. CNY and CNH reached the peak of the year on September 3rd and September 2nd, at 7.1785 and 7.1947, and closed at 6.9662 and 6.9617 on December 31st, up 1.46% and 1.33% from the end of the previous year. The average annual spread between CNY and CNH is 119 basis points, 9 base points lower than in 2018.

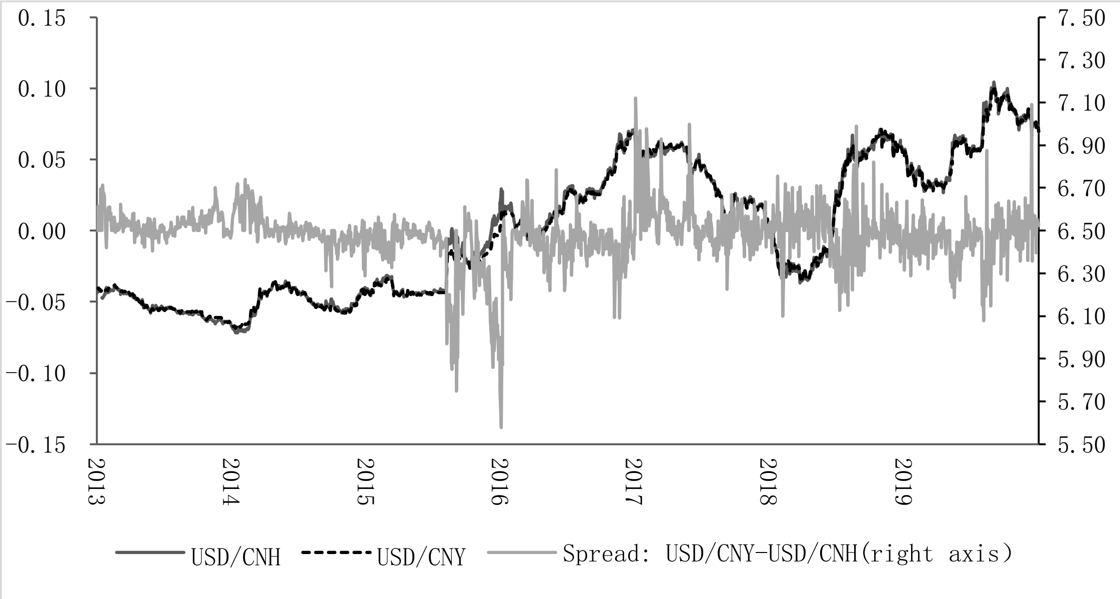


Figure 21 The Exchange Rates of CNY and CNH and Their Spread, 2012-2018

Source：Wind

3.4.1.5 RMB NDF Depreciation Narrowed

As of the end of December 2019, the 1-month, 3-month, 6-month and 1-year RMB NDF closing prices were 6.9655, 6.9765, 7.0070 and 7.0410, respectively. Compared with the same period in 2018, the exchange rate of RMB against the US dollar depreciated by 1.18%, 1.31%, 1.52% and 2.02% respectively in the four above-mentioned NDF transactions.

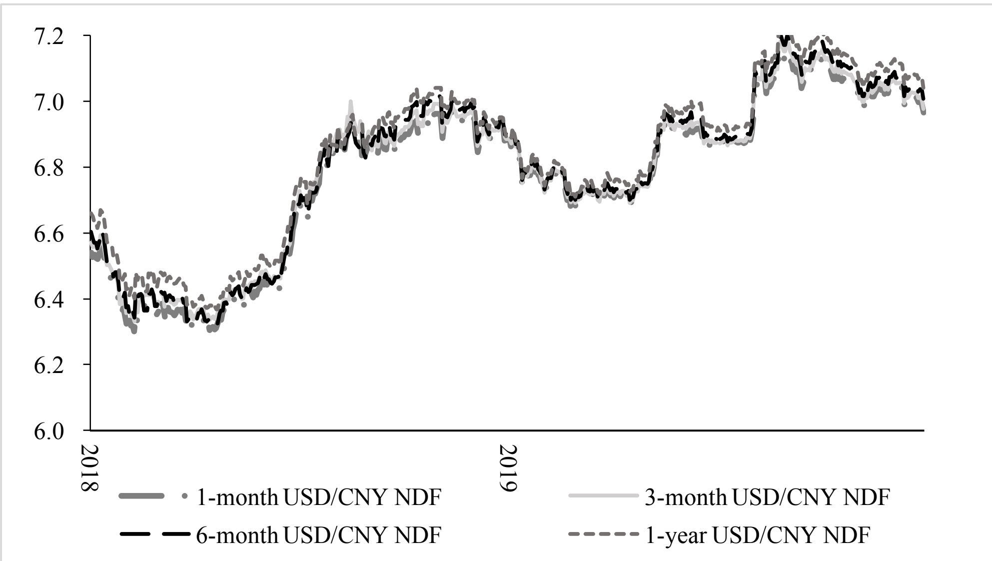


Figure 22 RMB NDF Daily Comprehensive Closing Price, 2018-2019

Source：Wind

Part IV The Goal and Path of Building Shanghai Global Financial Center

4.1 Strengthening Top-level Design and Institutional Innovation, and Building Shanghai Global Financial Center

We should further give full play to the institutional advantages of pooling resources to address major problems, strengthen top-level design and institutional innovation, and rely on the development strategy of the Yangtze River Economic Belt and the integrated development strategy of the Yangtze River Delta. Measures will be taken to coordinate the development of economy, technology, trade and finance, increase the efforts of reform and opening-up in the free trade zone, and take the marketization and internationalization as the core to build Shanghai into a global finance center with complete financial functions, coordinated development of five centers and strong comprehensive competitiveness. This will provide an endless source of new impetus for expanding the international use of RMB and breaking the bottleneck of RMB network effects.

We will uphold the principle of "prioritizing local currency", by taking the expansion of cross-border use of RMB as the facilitator, deepening institutional reforms, simplifying and optimizing the management system for the use of RMB under current accounts and direct investment. Measures will be taken to eliminate institutional barriers to facilitate the use of RMB, and improve the efficiency of cross-border outflow and the availability of overseas RMB, to enhance the ability to allocate RMB resources globally.

We will deepen the innovation of financial services in the free trade zone, encourage the development of industrial chain finance and attract the gathering of industrial enterprise headquarters, so as to enhance investment and financing functions and global resource optimization allocation functions, and fully support the development of Shanghai Trade and Shipping Center. Besides, we will continue to explore the mutual promotion and beneficial supplementary mechanism of the construction of free trade zone and RMB internationalization, support the development of RMB cross-border trade financing, refinancing, cross-border two-way RMB capital pool and other businesses, and actively integrate into the global value chain, industrial chain and innovation chain. Efforts will be made to steadily move towards a strong investment country, continue to promote the use of RMB in direct investment, and pave the way for the industrialization of RMB internationalization.

Efforts will be made to implement overall planning and integration of the onshore financial market opening path and complete the negative list system to appropriately expanding the scope of participants, therefore accelerating the development of the RMB interest rate and exchange rate derivatives market, and achieving seamless connection between financial sub-markets. This will also provide an open, huge and efficient capital market for the internationalization of RMB as basis and support. We will strengthen onshore-to-offshore market pricing guidance and effectively straighten out the RMB international circulation path in order to create a fair competitive environment and market conditions for RMB cross-border financial transactions and asset management.

4.2 Enhancing Institutional Innovation and Competitiveness to Strengthen Shanghai’s Functions of Global Financial Resource Allocation.

Measures will be taken to improve and optimize the reform of the financial institution system, by cultivating a large number of financial institutions with innovative capabilities and global competitiveness, and giving play to the aggregation and scale effects of financial centers.Taking high-quality development of the service economy as the starting point, the financial institutions should be committed to improving the professional level and promoting the integration and development of financial business innovation. We will establish and improve the internal risk identification, appraisal and evaluation system of the company, so as to strengthen

Shanghai's functions of global financial resource allocation.

First, we will accelerate the cultivation of leading global financial institutions such as head brokers, big banks, and big asset management companies. Measures will be taken to increase RMB asset allocation capabilities, enhance RMB's pricing power, radiation and influence in global assets, and strengthen areas of weakness in developing global financial centers. At the same time, the construction of supporting services for law, credit reporting, rating, accounting and auditing should be further strengthened as well.

Second, we will cultivate a group of emerging local financial technology enterprises with advantages and encourage financial institutions to innovate and promote profound changes in the financial industry. Based on the characteristics and needs of different niche markets and customers, we will design suitable business models including the industrial chain, so as to provide targeted financial services for small and micro-sized enterprises, and science and technology enterprises. It is necessary to use the RMB Asset Management Center as the starting point to constantly enrich the types of RMB asset transactions; Efforts will be made to seek for cooperation with online platforms, promote electronic transactions, and expand the market scale.

Third, we will gather and develop a group of asset management institutions with key market influence, and build international financial asset trading platforms. Efforts will be made to further implement high-level financial opening-up measures, optimize access standards, attach importance to attracting non-bank foreign financial institutions, and increase the proportion of foreign financial institutions in Shanghai global financial center. In addition, we will accelerate the introduction of a group of representative international financial institutions with its focus on wealth management companies, pension funds, and futures companies, to address the inadequacies of the financial market development in Shanghai.

4.3 Creating “Shanghai Price” and Mastering the Pricing Power of RMB Financial Assets

In order to enhance the core competitiveness of Shanghai global financial center, it is necessary to actively and steadily carry out the “last mile” of interest rate marketization reform, and firmly grasp the pricing power of RMB interest rate products. The barriers between the financial markets should be broken through and the financial market resources should be integrated, in order to actively promote the coordinated development of financial markets and jointly create the “Shanghai price”.

First, we should continue to psromote the market-oriented reform of interest rates, and establish a complete, efficient, and market-based RMB interest rate system. The first is to improve the benchmark interest rate mechanism, break through institutional barriers, use market forces to promote the linkage between SHIBOR and LPR, and establish smoother monetary policy transmission mechanism. The second is to improve the yield curve and establish a price transmission mechanism from the benchmark interest rate to each financial market, therefore providing pricing benchmarks for RMB assets. Measures will be taken to vigorously develop the derivatives market, strengthen the benign interaction between the spot market and the futures market and break the financial market segmentation, so as to realize price linkage across markets. Furthermore, we will actively develop new financial market forms, promote the development of insurance market, bill market, trust beneficiary right transfer market, etc., and guide the optimal allocation of short-term and medium-term funds.

Second, we will develop CFETS into a price indicator of the RMB foreign exchange market, regulate cross-border flow of funds, and provide benchmarks for financial institutions to target different currencies and adjust balance sheets.Continuous efforts will be made to enhance the function of the Shanghai foreign exchange market, increase the currency pairs of direct RMB transactions and expand the market level. We will also enrich the variety of derivatives, launch CTETS index-linked derivatives to meet the diverse foreign exchange transactions and risk management needs of enterprises, institutions, and government departments .

Third, we will improve marketization and standardization, and continue to build the RMB pricing benchmark for international commodity trade. Efforts will be made to expand the scope of member institutions of gold and commodity futures exchanges, provide more convenience and enrich product series.In addition, we will also strengthen the correlation between spot market and futures market transactions, allowing financial institutions to participate in market transactions and maintaining market liquidity.In this regard, the price discovery function and hedging function of "Shanghai Gold" and "Shanghai Oil" can be utilized to further enhance the international influence of "Shanghai Price".

4.4 Enhancing Taxation Reform and Innovation to Create an Internationally Competitive Taxation Environment

Shanghai should carefully summarize the taxation policies and practical experiences of tax collection and management in various SEZ over the past 40 years of reform and opening up, and creatively solve the system constraints including taxation, currency, trade, finance, customs and labor policies.Besides, Shanghai should also learn from the tax system practices and policies of international financial centers including London, New York, and Singapore, by attaching importance to the promotion role of government's "tangible hand", and giving full play to the positive role of taxation in attracting capital and talents and other production factors and promoting industrial upgrading. Under the premise of observing international rules and combating against harmful and malicious tax competition, we will innovate the tax system and formulate distinctive and competitive tax policies. Taking special tax incentives as an important starting point, we will target and implement special tax incentives for all kinds of SEZ, financial industries and high-tech industries , so as to focus on building a taxation model with relative competitiveness that is aimed at attracting headquarters and advanced manufacturing of multinational companies. Efforts should be made to stimulate the development of market players, form a tax environment that encourages innovation, and enhance market-based agglomeration, scale, and radiation effects in Shanghai.

By improving the tax system reform of "replacing the business tax with VAT", tax policies targeted for financial institutions and financial products are formulated. The financial business will be divided into core financial business, auxiliary financial business and export financial business, with certain VAT reduction and exemption being implemented for the key development of core financial business. Measures are taken to implement targeted tax preferential policies for financial innovation products and financial institutions, and set up pre-tax deduction items that are in line with the rules and characteristics of financial development. With reference to the practice of the "Guangdong-Hong Kong-Macao Greater Bay Area", an appropriate personal income tax rebate or special deduction system should be established to provide moderate personal income tax incentives for high-end financial talents to provide a good living and development environment for them. We will further optimize various tax and fee reduction measures from central and local governments , adopt digital technology, innovate tax collection and tax payment service models, so as to improve tax convenience and efficiency. Efforts will be made to accelerate the concentration of financial resources and reduce the obstacles to capital flow and distortion of resource allocation. Measures should be taken to make legislative and technical preparations for levying financial transaction taxes. It is feasible to explore the establishment of a certain percentage of financial transaction tax on the gross income of stocks, bonds and derivative financial products from financial institutions.

4.5 Improving the Internationalization Level of Financial Infrastructure and Building Credit Information Sharing Mechanism

In view of the high standard requirements of important global financial center, with the construction of the RMB clearing and payment system as the core, efforts should be made to improve the internationalization of the financial market infrastructure, further improve the legal system of the RMB clearing and settlement system, and strengthen the interconnection among existing financial infrastructure. We will explore the formulation standards of new-type finance, and facilitate the interconnection of international and domestic standards for new products, new institutions, and new businesses in the financial sector, therefore providing ideas, formulation lists, and specific items for China to formulate national and industry standards.

Measures should be taken to formulate basic laws of the CIPS system and participant management methods, to clarify the access, access methods and other management requirements of participants both at home and abroad. Besides, we should strengthen the interconnection between the CIPS system and more financial market infrastructure both at home and abroad, and conduct research on services such as account and liquidity management to improve the efficiency and international competitiveness of CIPS system cross-border payment. We should give full play to Shanghai's advantages in leading the development of global financial technology, absorbing and drawing on international common standards, improving the financial standardization system, and enhancing China's influence in the formulation of international financial standards. Efforts should be made to establish Shanghai Financial Standardization Organization with the joint participation of banks, securities companies, insurance companies and other industry associations, and improve the multi-level financial standard system covering the whole country, industry, and organizations. Measures should be taken to actively participate in the formulation of international standards and establish normalized communication mechanism based on key contents including data collection, standard formulation, and information maintenance, in an aim to promote China's superior or distinctive standards, and increase China's influence.

Measures should be adopted to vigorously promote the construction of new infrastructures including 5G network, data centers, AI, to explore the construction of a unified financial cloud service platform with core technology. We should integrate data from all channels according to law to form data sharing mechanism covering departments in finance, taxation, industry and commerce, customs, courts and other departments. Furthermore, we should improve the financial credit information database, develop credit-reporting products and services required by multi-level financial markets and diversified financial entities.Shanghai will be built into the most influential global financial information center by taking the “Belt and Road” credit cooperation as an opportunity to strengthen credit information cooperation and exchanges with overseas financial center cities.

4.6 Coordinating and Innovating the Regulatory Model to Build a Global Financial Center with Chinese Characteristics

Functions in a crucial and special strategic position, Shanghai International Financial Center should further improve the financial supervision system with sound functions and efficient cooperation. On the context of adhering to the central government’s major policies, Shanghai Headquarters of the People’s Bank of China will take advantage of the macro-prudential management and top-level design of the macro-management. Besides, Shanghai Financial Work Bureau will take advantage of the supervision role of financial institutions within the jurisdiction according to the regulatory rules and operating rules, thus promoting block integration and improving the pertinence and efficiency of supervision. The cooperation of financial regulatory agencies should be strengthened to form three-dimensional local financial regulatory coordination framework. Shanghai financial supervision department should be more active to give full play to its subjective initiative, by making full use of the first-trial right granted by the central government to the Shanghai Free Trade Zone. All types of market entities that involved in the Shanghai International Financial Center should be included within the scope of supervision, leaving no gaps in supervision and loopholes in regulation. Shanghai should also establish emergency response mechanism for major financial emergencies, and quickly mobilize diversified administrative forces including finance, courts, procuratorates, political and legal commissions, public security, development and reform, economic and trade, finance, tax, industry and commerce etc., to ensure financial security and stable development of the financial market.

Measures should be taken to innovate the financial supervision model, build complete "supervision sandbox" framework and apply financial supervision technology, thus shifting from passive supervision to active supervision. Special rules and regulations should be formulated to clarify the rights, obligations and responsibilities of all parties including regulatory authorities, financial institutions and technology companies, therefore incorporating the development and application of financial regulatory technology into the legal framework. More use of big data, blockchain, cloud computing, artificial intelligence and other modern technical means should be realized to follow up the scientific and technological innovation of the regulated institutions in real time, and further improve the whole chain supervision before, during and after the event. The complete financial factor market and developed consumer market has allowed Shanghai to conditionally implement the "supervision sandbox". The establishment body and operation body of the "supervision sandbox" should be identified.We should first implement trials in some financial fields, conduct sufficient pre-test and post-tracking based on the data available, and explore the specific implementation and management mechanism of the "supervision sandbox". We should not only encourage financial innovation, but also protect the legitimate rights and interests of finance-related consumers.

4.7 Improving Financial Governance Mechanism and Enhancing the Ability to Manage Major Risks

The global financial center has attracted financial institutions from all over the world. It is necessary to pay full attention to the mismatch problem between current financial sector regulatory framework in China and the comprehensive operating model of international financial institutions. Measures should be taken to further optimize the supervisory responsibilities of the Financial Stability Board as well as the "PBoC, China Banking Regulatory Commission（CBRC）and China Securities Regulatory Commission (CSRC) ", strengthen policy coordination, improve policy linkage, avoid regulation gaps or overlapping regulatory issues, so as to jointly create an open, transparent, and efficient regulatory environment. We should not only supervise traditional financial risks, but also monitor and evaluate the risks of new financial forms such as third-party payment platforms, digital currencies, Internet finance, etc.,A wider range of regulatory information and data sharing should be realized by involving multiple forces to combat against “money laundering”, terrorism-related financial transactions, and illegal cross-border financial activities, in order to jointly maintain the smooth operation of the global financial system.

As a growing global financial center, Shanghai tends to be more vulnerable to the impact of international economics and finance, therefore making it an urgent need to improve the two-in-one management framework of “micro-regulation+macro-prudence” for cross-border capital flow. Measures should be adopted to make full use of financial technology and build powerful financial risk monitoring system. We should also timely supplement and improve the risk management policy toolbox, and build major risk management mechanism. First, we should further strengthen supervision of global systemically importane financial institutions and follow the abnormal flow of funds within financial holding companies across institutions, markets, and borders in a timely manner. We should be adept at identifying financial risks nested in complex transaction structures, and flexibly use policy tools to effectively respond accordingly. Second, we should attach great importance to and effectively respond to the trend of RMB speculation. We should continue to deepen the reform of the marketization of both RMB interest rates and exchange rates, to establilsh price coordination mechanism for interest rates and exchange rates. Besides, it will also help to consolidate Shanghai’s role as a global RMB asset pricing center, to guide offshore prices with onshore RMB prices. During this process, we can also consider establishing RMB stabilization fund to ensure the stability of the RMB exchange rate and provide support for the promotion of RMB internationalization. Third, measures should be taken to further improve the system and mechanism to fully prepare for major risks in the non-traditional economic and financial fields including earthquakes, plagues, hackers, and terrorist attacks, to ensure the normal operation of financial infrastructure and financial markets.

RMB Internationalization Milestones (2019)

Date	Event
January 10,2019	The Central Bank of Russia announced an increase in its holding of RMB from \$23 billion to \$67 billion.
January 14,2019	Industrial and Commercial Bank of China (ICBC) , Singapore Branch completed the world's first USD/CNH flexible forex futures trade in the Singapore Exchange (SGX).
January 15,2019	The share of RMB in foreign exchange reserves of the Central Bank of Iran reached 15%.
January 17,2019	*Action Plan for the Construction of Shanghai International Financial Center (2018-2020)* was promulgated.
January 30,2019	The Central Bank of Myanmar announced to include RMB as official settlement currency for international payment.
January 31,2019	Bilateral currency transfer service between China and Mongolia was opened.
February 11,2019	PBoC and the Central Bank of Surinam renewed the bilateral currency swap agreement with a volume of 1 billion yuan.
February 13,2019	PBoC successfully conducted two issuance of RMB-denominated central bank bills in HKSAR.
February 26,2019	BRICS New Development Bank issued 3 billion worth of RMB-denominated bonds in China.
February 28,2019	MSCI announced a three-step increase of China A-share inclusion factor from 5% to 20%.
March 7,2019	The China Securities Regulatory Commission (CSRC) approved the status of the International Monetary Fund (IMF) as the RMB Qualified Foreign Institutional Investors (RQFII).
March 11,2019	Hong Kong Exchanges and Clearing Ltd (HKEX) introduced futures contracts on the MSCI China A Index.
March 12,2019	United Overseas Bank of Singapore issued 2 billion yuan worth of Panda Bond in CIBM.
March 18,2019	The State Administration of Foreign Exchange issued *Measures for Administration of Centralized Operation of Cross-border Funds of Multinational Corporations*.
March 19,2019	Shanghai Clearing House approved the Bank of America, Shanghai Branch as the first US non-body corporate member in China.
March 20,2019	Standard Chartered was given permission by Pakistan's Central Bank to establish RMB clearing and settlement institution in Pakistan.
April 1,2019	Bloomberg announced to include Chinese bonds to the Bloomberg Barclays Global Aggregate Index.
April 2,2019	China Foreign Exchange Trade System (CFETS) announced the official launch of the RMB/DOLLAR foreign exchange swap valuation service.
April 10,2019	The Bank of China issued the fifth overseas bonds themed on "Belt and Road Initiative".

April 15,2019	PBoC agreed Deutsche Bank Group to designate its Hong Kong branch as the RMB center.
April 15,2019	The Industrial and Commercial Bank of China, Xinjiang Branch and the Industrial and Commercial Bank of China (Almaty) Co., Ltd of Kazakhstan completed a forex transaction of CNYKZT in the inter-bank market.
April 17,2019	Bank of China kicked off Japan RMB clearing business.
April 30,2019	Cross-border RMB cash transfer between China and Laos exceeded 100 million yuan in Mohan Sub-branch, Xishuangbanna Branch, Fudian Bank.
May 10,2019	PBoC and Monetary Authority of Singapore renewed bilateral currency swap agreement.
May 13,2019	MSCI announced a weight increase of China A-share in its EM index from 5% to 10%.
May 15,2019	PBoC issued 10 billion yuan worth of three-month central bank bills and 10 billion yuan worth of one-year central bank bills in HKSAR.
May 15,2019	Philippines issued 2.5 billion yuan worth of three-year Panda Bond in CIBM.
May 17,2019	Hang Seng Bank issued the first inter-bank bond certificates of deposit with a value of 1.83 billion yuan.
May 22,2019	Agricultural Development Bank of China issued 3 billion yuan worth of one-year and three-year RMB-denominated bonds overseas.
May 25,2019	FTSE Russell announced to formally include A shares in its global Equity index Series (GEIS) in June.
May 30,2019	The Republic of Portugal issued 2 billion yuan worth of Panda Bond in CIBM.
May 30,2019	The Czech Central Bank announced to use RMB as reserve currency.
May 30,2019	PBoC and the Central Bank of Turkey renewed the bilateral currency swap agreement.
June 25,2019	China-Japan ETF Connectivity was launched.
June 26,2019	PBoC issued 30 billion yuan worth of RMB-denominated central bank bills in HKSAR.
June 27,2019	PBoC authorized Bank of Tokyo-Mitsubishi UFJ to act as the clearing bank for RMB business in Japan.
July 4,2019	PBoC successfully issued 2 billion yuan worth of RMB-denominated treasury bonds in Macao.
July 12,2019	*Notice on Printing and Distributing Rules for Further Implementing the Pilot Reform of Foreign Exchange Administration in China (Shanghai) Pilot Free Trade Zone (Version 4.0)* was published.
July 20,2019	The Office of the Financial Stability and Development Commission of the State Council announced 11 measures to open the financial sector to the world.
July 22,2019	Bank of China Hong Kong Branch and Bank of China Yunnan Branch opened direct RMB exchange service in Myanmar.
July 23,2019	Harbin Bank opened channels for cross-border RMB cash transfer to Russia.
August 1,2019	Cassa Depositi e Prestiti S.p.A in Italy issued the country's first RMB-denominated bond.
August 6,2019	The U.S. Treasury Department labeled China as currency manipulator.
August 6,2019	*The General Plan for the Lingang New Area of the China (Shanghai) Pilot Free Trade Zone* was printed and issued.

August 8,2019	The inclusion factor of China A-shares in MSCI's EM indexes increased from 10% to 15%.
August 12,2019	RMB-denominated rubber futures, the technically specified rubber (TSR) No.20 futures, was listed as a specific variety.
August 14,2019	PBoC issued 30 billion worth of RMB-denominated central bank bills in HKSAR.
August 24,2019	FTSE Russell announced an increase of A-share inclusion factor from 5% to 15%.
August 26,2019	Overall Plans for Pilot Free Trade Zones in Shandong, Jiangsu, Guangxi, Hebei, Yunnan and Heilongjiang were printed and published.
August 30,2019	The 2019 edition of the fifth set of RMB was officially issued.
September 3,2019	HSBC completed its first blockchain-based RMB-denominated L/C transaction.
September 4,2019	J.P. Morgan announced the inclusion of RMB-denominated Chinese Government Bonds in the Government Bond Index-Emerging Markets from February 28, 2020.
September 5,2019	The State Administration of Foreign Exchange approved the pilot qualification of CITIC Securities, Huatai Securities and China Merchants Securities for foreign exchange settlement and sales.
September 6,2019	The first financing business under the currency swap of China's Central Bank was conducted.
September 8,2019	S&P Dow Jones Indices announced to add 1,099 A-shares to the S&P Emerging Markets Global Benchmark.
September 10,2019	The State Administration of Foreign Exchange announced to abolish the investment quota and pilot area restrictions for QFII and RQFII.
September 16,2019	The Bank for International Settlements (BIS) published its survey findings on global foreign exchange markets.
September 17,2019	PBoC authorized the Bank of China, Manila branch to act as the clearing bank for RMB business in Philippines.
September 25,2019	The Ministry of Finance (MOF) issued 5 billion yuan worth of treasury bonds in HKSAR.
September 26,2019	PBoC issued 10 billion yuan worth of six-month central bank bills in HKSAR.
October 8,2019	PBoC and European Central Bank renewed bilateral currency swap agreement.
October 11,2019	Rio Tinto, the international iron ore producer, signed its first spot contract of RMB business with Rizhao Port Group.
October 14,2019	The Shanghai Gold Exchange launched a new T+N contract based on the Asian spot price of COMEX gold futures, while the Chicago Mercantile Exchange launched a Shanghai gold futures contract based on Shanghai gold benchmark price.
October 14,2019	The Shanghai Gold Exchange launched new products and officially listed the Shanghai Silver Centralized Pricing Contract, providing the market with the benchmark price of silver denominated in RMB.
October 15,2019	*Decision of the State Council on Amending the Regulations of the People's Republic of China on Administration of Foreign-funded Insurance Companies and the Regulations of the People's Republic of China on Administration of Foreign-funded Banks* was issued by the State Council.

October 22,2019	Shanghai Pudong Development Bank Hong Kong Branch and BNP Paribas completed the settlement of offshore RMB foreign exchange swap contract transaction.
October 23,2019	*Notice of the State Administration of Foreign Exchange on Further Promoting Cross-border Trade and Investment* was published.
November 5,2019	The Chinese Ministry of Finance issued 4 billion Euros of sovereign bonds in Paris, France.
November 7,2019	MSCI announced a weight increase of China A-share in its EM indexes from 2.55% to 4.1%.
November 7,2019	PBoC issued 20 billion yuan worth of three-month central bank bills and 10 billion yuan worth of one-year central bank bills in HKSAR.
November 11,2019	The State Administration of Foreign Exchange re-expanded its cross-border financial blockchain service platform.
November 18,2019	Vale of Brazil, the world's largest iron ore producer, signed two base trade contracts based on iron ore futures prices on the Dalian Commodity Exchange with China's large steelmakers, including Shandong Laigang and Shandong Yongfeng Steel International Trade.
November 19,2019	Habib Bank has become the first Pakistani bank to operate RMB business in China.
November 22,2019	Beijing Infrastructure Investment Corporation issued the first offshore RMB-denominated bond for non-financial institutions.
November 25,2019	The Industrial and Commercial Bank of China (ICBC), China Central Depository & Clearing Co., Ltd. (CCDC) and the Singapore Exchange jointly released the China-ICBC RMB Bond Index to the world in Singapore and listed it on the Singapore Exchange.
November 27,2019	The Chinese Ministry of Finance (MOF) issued 5 billion yuan worth of treasury bonds in HKSAR.
December 2,2019	Bank of Egypt and Commercial International Bank of Egypt were permitted to conduct RMB business.
December 3,2019	Foreign institutional investors in China's Bond Connect reached a record high in terms of accounts opened monthly.
December 5,2019	Crédit Agricole SA issued 1 billion yuan worth of Panda Bond.
December 10,2019	PBoC and Hungary's Central Bank renewed bilateral currency swap agreement.
December 16,2019	China Development Bank and the Belarusian Finance Ministry signed an overseas loan agreement of 3.5 billion yuan.
December 18,2019	PBoC issued the notice to further facilitate cross-border RMB remittance for individuals in Macao.
December ,2019	PBoC issued 10 billion yuan worth of central bank bills in HKSAR.
December 21,2019	Professional Committee of China Society for Finance and Banking on Cross-border RMB business was formally established.
December 24,2019	China's first pilot project to facilitate cross-border RMB settlement by overseas contracted engineering enterprises was landed.

December 27,2019	China Bond Financial Pricing Center released China Bond-Offshore RMB Sovereignty and Policy Financial Debt Index.
December 31,2019	China Foreign Exchange Trade System (CFETS) adjusted the currency basket and weight of CFETS and BIS RMB exchange rate indexes.

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