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Research Report



RMB Internationalization Report 2021--The New Development Pattern of Dual Circulation and Currency Internationalization (Press Release)

International Monetary Institute, Renmin University of China



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RMB Internationalization Report 2021

——The New Development Pattern of Dual Circulation and Currency Internationalization (Released Version)

International Monetary Institute, Renmin University of China

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Contents

Part I Preface	2
Part II RMB Internationalization Index	12
2.1 The Current Situation of the RMB Internationalization Index	12
2.1.1 RMB Internationalization Made Progress Despite Hindrance and RII Showed Rapid Climb	12
2.1.2 The RMB International Financial Denomination and Settlement was Strengthened	13
2.2 Comparison of Internationalization Indices of Major Currencies	14
2.3 Main Impetuses for RMB Internationalization	16
2.3.1 China's Economy Proved Resilient and the Foundation for RMB Internationalization Further Consolidated	16
2.3.2 China Accelerated Financial Opening-up and Channels for RMB Internationalization Continued to Expand	17
2.3.3 China Maintained a Normal Monetary Policy, Which Highlights the Stability of the RMB Value	18
2.3.4 International Monetary Cooperation Continued to Deepen with Broader Platforms for RMB Use	19
2.4 Main Barriers to RMB Internationalization	19
2.4.1 Fierce Competition from the USD and the EUR	19
2.4.2 Accelerating Capital Account Convertibility and Holding the Bottomline of Risk	20
2.4.3 Imbalance in RMB Inflow and Outflow and in RMB Investment and Financing	21
2.5 Suggestion on Expanding Cross-border RMB Use Scenarios	21
Part III The Current Situation of RMB Internationalization	24
3.1 Cross-border Trade RMB Settlement	24
3.1.1 Scale and Ratio of RMB Settlement Attained Moderate Progress	24
3.1.2 Settlement Centered on Commodities Trading While Services Trading Achieved Steady Growth	25
3.1.3 Capital Account Experienced a Higher Growth Rate While Payments and Receipts Remained Basically Balanced	25
3.1.4 Third-party Payment Platforms Played a Crucial Part in Expanding RMB Settlement Channels	26
3.2 RMB-denominated Financial Transactions	27
3.3 RMB in Global Foreign Exchange Reserves	36
3.4 RMB Exchange Rate	37
Part IV Promoting Dual Circulations to Push Forward RMB Internationalization	41
4.1 Promoting Domestic and International Circulations to Provide Strong Support for Currency Internationalization	41
4.2 Improving Technological Innovation and Unchoking the Dual Circulation to Improve National Governance	43
4.3 Leading High-level Opening Up Through Trade Innovation to Lay the Foundation for RMB Internationalization	45
4.4 High-quality "Belt and Road" Development and RMB Internationalization Promote Each Other	47
4.5 Developing an Efficient Interaction Mechanism Between Offshore and Onshore Markets to Strengthen RMB's Financial Transaction Function	48
RMB Internationalization Milestones (2020)	51

Part I Preface

The outbreak of COVID-19 in 2020 brought the severest global public health crisis that the human race has ever encountered since the end of the World War II. Not only has the novel coronavirus posed a threat to people's health and life, but it has dealt a heavy blow to the world economy, international trade and the global financial market. The pandemic has proved so destructive that it has even dwarfed the global economic crisis of 2008. Governments of various countries juggle policy goals as they strive to keep a balance between pandemic control and economic resumption. With the pandemic spiraling out of control and the economy slipping into recession, the US Treasury was pressed into bringing forward several relief programs, while the Federal Reserve effected emergency rate cuts to unleash liquidity to an infinite extent. For all these efforts, the US continues to face a broken society, antagonism between political parties and chaos during election and the transfer of power. Even so, the US government's suppression on China has shown no signs of easing with ever growing initiatives aimed at containing China's rise on all fronts. In the face of the sudden onset of the virus and an increasingly deteriorating external environment, China's social governance has exhibited great resilience in various aspects: not only has China made major strategic achievements in pandemic control, but it has gained remarkable results in coordinating and promoting economic and social development with regular pandemic prevention measures in place. China has become the only major economy in the world that sustains positive GDP growth.

By the end of 2020, the RMB internationalization index (RII) reached 5.02, a sharp increase of 54.20% year-on-year. RII was compiled

by the International Monetary Institute (IMI) of Renmin University of China and was officially disclosed in the first Renminbi Internationalization Report in 2012. It is an objective description of the actual use of RMB in international economic activities. Through this comprehensive and quantitative indicator, it helps us understand the development of the RMB as an international currency in terms of trade valuation and settlement, financial transactions and official reserves and enables comparison of RMB with other major international currencies, thus laying the technical foundation for analyzing RMB internationalization both in China and abroad.

The sharp increase in RII is attributable to the following factors. First, RMB as a means of denomination and settlement in international trade was augmented: in 2020 RMB settlement in cross-border trade under current account reached 6.77 trillion yuan, up by 12.09% year-on-year and accounting for 18.44% of China's total export-import volume of commodities and services; globally, RMB accounted for 2.91% of all international trade settlements, up by 18.40% compared to the previous year. Second, there was a remarkable step-up in the performance of RMB in terms of financial transactions: as the world direct investment kept at an ebb, the RMB direct investment volume reached 3.81 trillion yuan, up by 37.05% year-on-year and marking the highest growth rate of the past five years; by the end of 2020, RMB accounted for 9.89% of international financial denomination and settlement. The figure, collectively determined by direct investment, international credit loans and international bonds and notes, represented a year-on-year increase of 84.23%, constituting a major impetus for the rise in RII. Third, RMB's role as an international reserve currency was further advanced: so far more than 70 foreign central banks or similar institutions have entered the China Interbank Bond Market, with the monetary authorities of over 75

countries and regions having RMB included in their foreign reserves; in the fourth quarter of 2020, RMB accounted for 2.25% of global official foreign reserves, up by 14.80% year-on-year; the share of RMB in Special Drawing Rights (SDR) was 10.83%, a modest pickup compared to the previous year and more or less an equal to its initial weight.

It is commonly acknowledged that RMB settlement in cross-border trade, which began in pilot zones in 2009 and was later implemented throughout the country in 2011, marks the official commencement of RMB internationalization. At that time, RMB was literally absent from the international market. Just ten years later, RII climbed from 0.02 to 5.02 after undergoing a bumpy process where it surged, plummeted and then picked up to hit a record high—the RMB internationalization has completed the metamorphosis of “from zero to one”. Currently, RMB has gained a secure footing as a major international currency. During the same period of time, the changes in the internationalization indices of major currencies are as follows: the USD from 49.52 to 51.27, the EUR from 29.84 to 26.17, the JPY from 3.34 to 4.91 and the GBP from 4.00 to 4.15. Notably, RMB internationalization surpassed that of the JPY and the GBP in the first half of 2020 and ranked the third among major international currencies for three consecutive quarters.

Interestingly, before the RMB became a major international currency, although the currency internationalization indices had been constantly changing, the four major currencies had maintained a two-group structure with a significant gap in international use in between. In other words, the USD and the EUR had been far more widely used internationally than the JPY and the GBP. It had been like this ever since the birth of the EUR and there had been no indication for change. Therefore, the general concern across the market after the inclusion of the RMB into the international currency club was: Is the outperformance of

the RMB over the JPY and the GBP going to be nothing but a flash in the pan? Is the RMB going to be long stranded in the second group together with the JPY and the GBP? Is there any chance for the RMB to break into the first group? If the ultimate objective of RMB internationalization is a currency status that matches China's economy and trade, how should we design and push forward goals of RMB internationalization for the next 10 and 20 years now that the first ten-year objective has been achieved?

RMB Internationalization Report 2021 is the tenth annual report issued by the research team of the Renmin University of China. It aims to present a faithful account of the progression of RMB internationalization with in-depth analysis on major theoretical issues and policy hotspots. Under the theme of "The New Development Pattern of Dual Circulation and Currency Internationalization", this year's report provides a systematic exposition on the theoretic logics and historical logics between the dual circulation, high-quality development and RMB internationalization before going on to discuss the major areas of work entailed in creating the new development pattern of dual circulation. We are of the opinion that the accelerated formation of the new development pattern in which "domestic economic cycle plays a leading role while international economic cycle remains its extension and supplement" is a crucial strategic plan which allows China to embrace new phases of development, implement new development concepts and realize high-quality development. Undoubtedly, it will help build up the hard power and soft power of RMB in an all-round way and create a historic opportunity for RMB internationalization to step up a gear.

The nature of the internationalization of a sovereign currency is the extension of the functions of that currency across the world, which entails large-scale cross-border movement of commodities, services, capital, etc. in and out of the country in question. High levels of dual circulation is

conducive to augmenting the above-mentioned movement. High levels of the domestic cycle provide a robust basis for the real economy and the financial market, a stable and secure environment for development and strong competitiveness in technology. All this forms the foundation for the internationalization of currencies. High levels of the international cycle constitute the means to realize the internationalization of currencies, including foreign trade, cross-border investment, international financial transactions, international financial services, international coordination of economic policies, among others.

Historically, the GBP was once among the first group of international currencies. With the collapse of the colonial system, Great Britain's domestic cycle shrank with the slide in its technological and economic capacities and was no longer able to sustain trade expansion and the presence of the GBP in transactions. Being an international financial center, London strove to uphold the GBP as a means of financial transaction, but the general performance of the GBP as an internationalized currency dropped to the second group and it was there to remain. Japan's domestic cycle is also limited as the country cannot position itself either as the world's export hub or as a big import market, which has restricted the share of the JPY in international trade. Moreover, as the Tokyo does not compare with New York or London as an international financial center, the JPY has long existed in the international market as a haven currency and the JPY finds itself stuck in the second group. Similarly, the German Mark has never been able to break away from the second group either. However, the creation of the Eurozone has led directly to a big market and high levels of domestic cycle within the zone and has naturally taken over all the external cycles of its member states. The result is that the Euro swiftly positioned itself among the first group of international currencies right after its birth.

Obviously, the construction of a new development pattern of dual circulation can provide the conditions to promote RMB into the first group of international currencies. The domestic cycle as the mainstay determines the shape and size of domestic consumer market and investment market. A smooth international cycle guarantees the profitability and security of RMB assets, keeps up the appeal of RMB and generates vigorous demands for RMB by residents and non-residents in a fundamental way. The international cycle is the platform where China practices multilateralism and international cooperation. It is conducive to mutual interest, multiple wins and inclusive development among different countries and will help to stabilize the international industrial chain and supply chain. It will effectively reduce economic and financial risks for China and promote efficiency and robustness during the development process. A smooth international cycle keeps RMB in sufficient supply and promotes the availability and convenience of RMB assets. Building an economic development layout where domestic and international cycles reinforce each other can increase the international scenarios and presence of RMB and make a habit of using and holding the RMB for the majority of residents and non-residents.

Building a new development pattern of dual circulation is a strategic layout that has a bearing on the whole landscape of China's modernization. The aim is to boost high-quality economic development during and even long after the 14th Five-Year Plan as we continue deepening reform and seeking high-level opening-up. High-quality development of the contemporary China entails efficiency, robustness and inclusiveness. To be more specific, high-quality development should be efficient; high-quality development should be robust and orderly with a particular highlight on the bottomline of avoiding systemic financial crises and realizing sustainable and healthy development; high-quality

development should be inclusive and shared by all. The model of development should be open and balanced and the fruit of development should manifest itself in the sense of achievement and happiness of society as a whole and the entire human race.

High-quality development determines the future of RMB internationalization. On the one hand, high-quality development strengthens the overall economic power of the country and serves as the solid basis and perpetual momentum for RMB internationalization. It constitutes the hard power that ensures long-term success of RMB internationalization. On the other hand, RMB internationalization propelled by high-quality development will naturally export efficiency, robustness, inclusiveness, among other elements, to the world. The international cycle led by China does not adopt the domineering colonial or hegemonic model where capital is let loose as a means to pillage and profit. Instead, it invites the whole world to share in the giant market and valuable opportunities of development in its domestic cycle in pursuit of all-round cooperation based on consultation, contribution, shared benefits and governance. In the process of globalization China has exhibited the broadness and profundity of its culture and maintained the path of multilateralism and peaceful development, as well as the values and concepts of mutual respect, harmony and a community with a shared future for mankind. This, together with the appeal and charisma of the RMB, constitutes an essential soft competitive power. This open attitude with which we welcome the whole world to hitch a lift with China as its economy rapidly develops serves as the strongest endorsement for RMB internationalization. With a sense of mission and a posture of equality befitting a major economy, China is bound to earn wide recognition and support from the international community, which in turn will determine

in a fundamental manner the success or failure of the ultimate goal of RMB internationalization.

Building a new development pattern of dual circulation requires a fine focus on the problems, key issues and major breakthroughs.

The key to a smooth domestic cycle is two-fold. First is accelerating productivity. Through enhanced technological innovation and reduced costs of labor, we will boost the ability of supply to create demand. Through deepening reform of the financial market system, keeping up high-level financial opening-up and guiding proper flow of financial resources, we will strengthen the capacity of finance to serve real economy. Second is empowering the market. Through unclogging market flow we will increase the capacity of market integration and unleash the potentials of real economy. We will push forward the modernization of the state governance system and governance capacities through improving business environment, enhanced policy coordination and better safeguarding property rights, among others, so as to meet the requirements of high-quality development.

The key to a smooth international cycle is a focus on high-level opening-up based on China's realities, reshaping the international economic cooperation and competitiveness through various forms of trade innovation so as to seize the initiative and amplify our voice on the international stage. First, we should continue our efforts in presenting a successful China International Import Expo. On the outside, we will channel quality products and services to the Chinese market from across the world by expanding the scale and improve the quality of trade; on the inside, we will meet the demand of upgraded consumption as well as promoting trade cooperation and stimulating direct investment by capitalizing on the catfish effect on the supply side; continued efforts should be made in amplifying the spillover effect of the Expo on the

construction of the Shanghai Central Area and the development of the Yangtze River Delta city group to promote the regional integration of the Yangtze River Economic Belt. Secondly, services trading should improve in both scale and quality. Demonstration zones for services trading should be expanded and differential platforms for the innovation and development of services trading should be established. Efforts should be devoted to improving digitalization of key areas and mending supervision loopholes. Thirdly, we must give full play to the demonstrative role of the free trade areas as we push forward high-quality opening-up and institutional innovation. In order to enhance foreign investment and augmenting regional linkages, free trade areas should take on more initiative in reform and opening-up to accumulate experiences that can be applied elsewhere so that places other than the free trade areas can benefit from the dividends of reform.

The key to accelerating mutual promotion between the domestic and international cycles lies in the Belt and Road Initiative and the construction of the offshore market. The construction of the BRI should lead Chinese enterprises and capital to go global and expand cooperation in trade and investment so as to improve the competitiveness and international market status of Chinese enterprises; in this way the international cycle will promote the domestic one as it stimulates the transformation of domestic industries and contributes to the integration of the domestic market. A smooth domestic cycle will add momentum to the increase in export and foreign investment. Chinese enterprises and capital should be encouraged to take part in boosting the economy and improving the lives of the people of the BRI countries so that these countries can have their share of the benefits of development that comes with a smooth international cycle. The emergence of the offshore RMB market is a conscious choice as the external cycle of the Chinese

economy has entered a certain phase. The mutual promotion of the two cycles requires a fully developed and well-balanced offshore market. The offshore market should guide international market resources towards stronger ties with China as well as expanding the coverage and influence of the international cycle; it should also assist Chinese enterprises in making full use of the domestic and international markets and their respective resources and assist Chinese financial institutions in establishing unique advantages of international operation in order to boost the domestic cycle. The offshore market helps residents and non-residents allocate and manage their assets, strengthen the roles of RMB as a means of financial transaction and store of value. It helps realize the mutual promotion of the domestic and international cycles and accelerate the network effect of RMB international use.

Since 2021, with the continued variation of the virus the pandemic is still here and the prospects for global economic recovery are bleak. Armed regional conflicts happen all the time. The world is turbulent with intensified game among great powers. Against the backdrop of such turmoil and chaos, China has entered the opening year of the 14th Five-Year Plan, namely the first year of fighting towards the second centennial goal. Building the new development pattern and promote high-quality development is both a political vision and a plan of action. The purpose is to build China into a great modern socialist country in all aspects and realize national rejuvenation. As long as China manages its own affairs well and keep our strategic focuses, we will definitely realize the ultimate goal of RMB internationalization!

There is still a long way to go for RMB internationalization. We have both time and morality on our side.

Part II RMB Internationalization Index

2.1 The Current Situation of the RMB Internationalization Index

2.1.1 RMB Internationalization Made Progress Despite Hindrance and RII Showed Rapid Climb

The year 2020 is destined to be unusual, with COVID-19 raging through the world, the world economy plunging into deep recession and the international financial market experiencing terrible jolts. As the pandemic interweaves with the profound changes unseen in a century, all countries in the world are faced with unprecedented challenges. Under the attack of the pandemic, China's economic and financial system showed resilience and RMB internationalization made progress despite hindrance. In 2020, the RMB as a means of denomination and settlement in international trade became increasingly consolidated. The RMB international financial denomination and settlement continued to deepen. The RMB as an international reserve currency remained steady with moderate progress. The RII was 5.02, up by a considerable 54.20% year-on-year (see figure 1) and marking a record high. The RMB took over the JPY and the GBP to become the third largest international currency. The RII for the four quarters of 2020 were 4.10, 5.19, 5.14 and 5.02 respectively, representing a steep climb with fluctuations at higher levels.

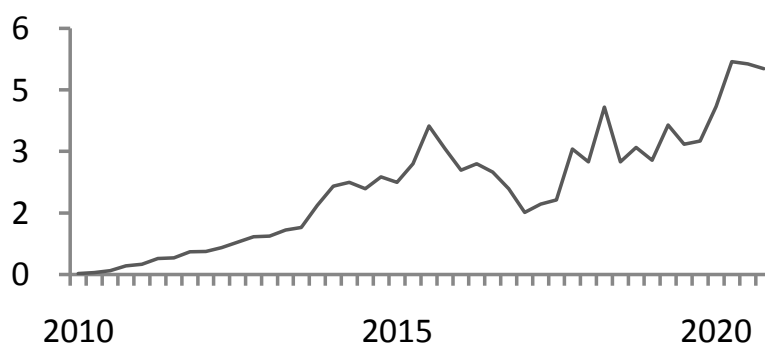


Figure 1 RMB Internationalization Index

2.1.2 The RMB International Financial Denomination and Settlement was Strengthened

The opening-up of China's capital account made remarkable progress and the use of the RMB became freer. International financial denomination and settlement replaced trade settlement as the biggest engine for RII growth. Characterized by accelerated growth with radical fluctuations, the 2020 RMB international financial denomination and settlement accounted for 9.89%¹, up by 84.23% year-on-year and becoming a major driving factor for the rise in RII (see figure 2).

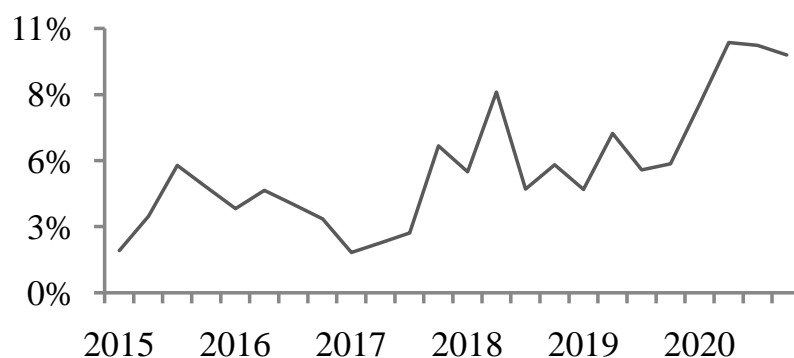
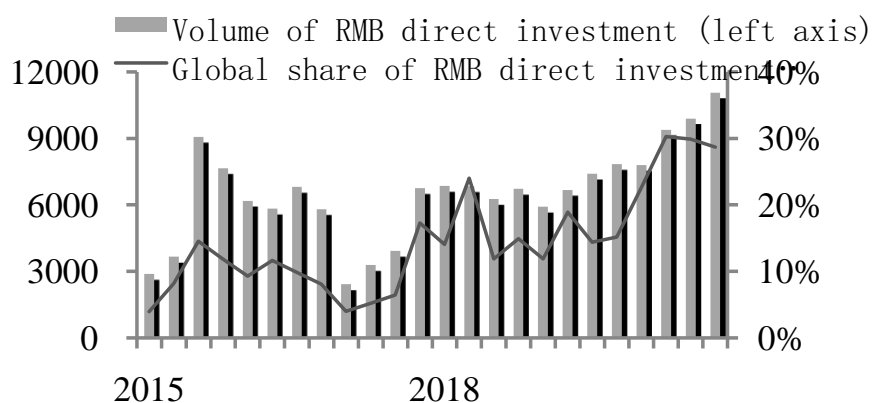


Figure 2 Comprehensive Indicator of RMB Use in International Financial Denomination and Settlement

In 2020, the scale of RMB international deposits and loans firmed up. RMB international credit loans accounted for 0.62% of the world's total, up by 9.14% year-on-year. RMB offshore loans made by financial

¹ As we calculated this figure we noted that according to OECD global outflow of foreign direct investment for the fourth quarter of 2020 was negative, which was at odds with what was known to be true. According to the definitions, global inflow and outflow of direct investment should be equal, while there exists a difference in the statistics in practice. So we times the global inflow of direct investment with 2 to work out a rough estimate of the figure for global direct investment for this quarter.

institutions rose by 13.56% year-on-year. Under the impact of COVID-19, issue of RMB international bonds shrank. The balance of international bonds and notes was USD111.287 billion, accounting for 0.41% of the world's total and down by 0.18 percentage points compared to the peak of 0.59% recorded at the end of the fourth quarter of 2015. Despite the disturbance as a result of COVID-19, RMB direct investment during the second half of 2020 surged. The total amount of the whole year reached 3.81 billion yuan, up by 37.05% year-on-year and marking a new record high.



billions of

Figure 3 Global Share of RMB Direct Investment

2.2 Comparison of Internationalization Indices of Major Currencies

This report uses the same method for compiling RII to work out the internationalization indices of the USD, the ERU and the JPY (see figure 4). In 2020, the internationalization index of the USD was 51.27, down by 0.09 compared to the end of the previous year. With a weak performance in pandemic control, the US experienced radical economic jolts and its annual GDP was down by 3.5%, a record low since 1946.

The USD index and the global demand for USD underwent a “first up, then down” process. The share of USD in global reserves was down by over 1.71 percentage points. However, the USD’s status as the largest international currency remains basically stable. The EUR had an internationalization index of 26.17, up by 0.17 year-on-year with its international footing slightly improved. The share of the Eurozone in investment and financial market went up and the EUR’s status was consolidated, although its share in trade and direct investment flagged as the Eurozone became deeply bogged down in repeated pandemic onslaught, economic recession and internal division. The GBP had an internationalization index of 4.15, registering a historic low. Hit by both the pandemic and Brexit, the UK economy was bogged down in recession. Its GDP was in negative growth; its export-import was shrinking; the UK was quickly losing its appeal to foreign capital. The internationalization index of the JPY is 4.91, up by 0.13 compared to the end of the previous year with a mild pickup in international ranking. Japan faced a serious downturn in consumption and investment, while its foreign trade and manufacturing industry were at a low ebb. For the second half of 2020, external demand improved and demand for the JPY increased as a consequence of an elevated risk-averting sentiment, which resulted in a rise of 0.14 percentage points in the JPY’s share in international reserves.

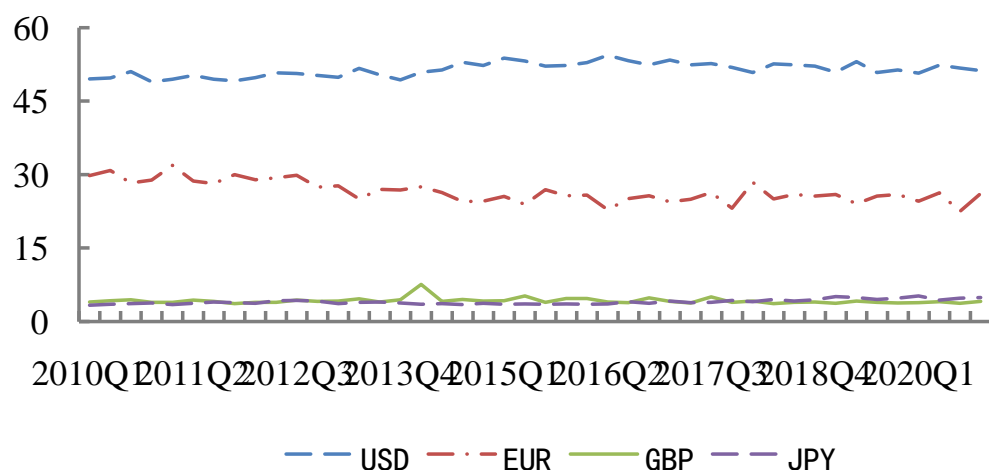


Figure 4 Changes in Internationalization Indices of Major World Currencies

2.3 Main Impetuses for RMB Internationalization

RMB internationalization attained remarkable process after 11 years of continued efforts and withstood major tests posed by the 2020 pandemic. Being the only one with positive economic growth among the G20 countries, China exhibited a resilient economic and financial system, unwavering stance in reform and opening-up as its international cooperation deepened and advanced. The foundation for RMB internationalization further consolidated and RMB market recognition notably improved.

2.3.1 China's Economy Proved Resilient and the Foundation for RMB Internationalization Further Consolidated

Digital technologies promote state governance, stable operation and high-quality development of real economy, serving as crucial pillar to RMB internationalization. In 2020, under the strong leadership of the Central Committee of the Communist Party of China, China coordinated pandemic control and economic and social development and was the first to shake off the crisis. Its GDP passed the 100 trillion mark and had a growth rate of 2.3%, far ahead of other major powers. Against the backdrop of a world economy in deep recession and rising protectionism everywhere, China adopted multiple measures to enhance trade and investment, achieving a positive growth of 1.9% in foreign trade; the amount of foreign capital actually used was near 1 trillion yuan, up by 6.2% against unfavorable conditions and marking a record high. This is a manifestation of robustness and resilience. Facing the long-running

impact of COVID-19, China upheld new development concepts, stepped up building the new development pattern of dual circulation, enriched and expanded RMB use scenarios and added new momentum to RMB internationalization. With the implementation of the RMB priority policy and the simplification of cross-border RMB use procedures, the inclination and ability of market entities to use RMB were further augmented.

2.3.2 China Accelerated Financial Opening-up and Channels for RMB Internationalization Continued to Expand

China upholds the basic state policy of reform and opening-up, focuses on promoting high levels of financial opening-up and offers an institutional and business environment that is fair, transparent and predictable. In March 2020, the CPC Central Committee and State Council issued Opinions on Constructing a More Complete Market-Oriented Allocation System For Factors, in an attempt to expand the opening-up of the financial sector in an orderly manner. The measures include simplifying capital regulatory requirements for foreign institutional investors in in-bound securities and futures investments, perfecting the rules for information disclosure and issue of panda bonds, canceling restrictions such as QFII and RQFII, and expanding and streamlining the channels for cross-border RMB use. The Chinese government bonds were included in JP Morgan Emerging Markets Bond Index and the World Government Bond Index, leading to an increase in RMB financial asset holdings by international capital. By the end of 2020, the amount of domestic RMB financial asset holdings by foreign institutions and individuals was close to 9 trillion yuan, up by 40% year-on-year. In addition, financial institutions innovated “Cross-Border

Wealth Management Connect” and the “RMB International Investment and Loan Fund”, among other services and platforms, which further fostered the competitiveness of RMB assets.

2.3.3 China Maintained a Normal Monetary Policy, Which Highlights the Stability of the RMB Value

Under the blow of the pandemic, the international financial market experienced colossal turmoil and sank into a liquidity crisis. All of a sudden the market panicked. Major central banks initiated a wave of ultra-loose monetary policies, with interest rates of various countries dropping to zero and even below. In stark contrast, China maintained a normal monetary policy and a positive interest rate, with a focus on supporting micro-, small- and medium-sized enterprises; China implemented proactive fiscal policies and discreet macro-level policies that allow orderly cross-border flow of capital and a two-way fluctuation of the RMB exchange rate. In 2020, the RMB-to-USD exchange rate fluctuated in a range of 4.2%, far lower than the 15% for the USD index and more stable than other major currencies and currencies of newly emerging markets. Owing to the stability of the RMB value and the relative competitiveness of RMB asset returns, the RMB is on its way to becoming the new international haven currency. Net inbound capital through Northbound Stock Connect totaled 1.2 trillion yuan and foreign holdings of Bond Connect was 3.3 trillion yuan, a year-on-year increase of 21.0% and 48.8% respectively.

2.3.4 International Monetary Cooperation Continued to Deepen with Broader Platforms for RMB Use

In the process of building the Belt and Road with high quality, China actively promoted international monetary cooperation and bilateral settlement of RMB. In January 2020, the People's Bank of China entered into a cooperation agreement on bilateral local currencies with the central bank of Laos, which allows the two countries to use their local currencies in international transactions; in September, the People's Bank of China signed the MoU for the Establishment of a Framework for Cooperation to Promote the Settlement of Current Account Transactions and Direct Investment in Local Currencies with the central bank of Indonesia, which marks an important milestone of financial cooperation between the two countries. By the end of 2020, there existed 30 valid agreements on RMB currency exchange, involving a total of 3.6 trillion yuan. The functions of the bilateral local currency exchange system have become diversified, which is conducive to streamlining trade and investment as well as securing RMB liquidity.

2.4 Main Barriers to RMB Internationalization

2.4.1 Fierce Competition from the USD and the EUR

RMB internationalization was faced with a graver external environment and fiercer international monetary competition. In 2020 the US upgraded its suppression on China with relentless propaganda that "China is the birthplace of the virus" and that "China should be responsible for the pandemic". This is fundamentally detrimental to China's international image and the global recognition of the RMB. The US interferes with China on such issues as Hong Kong and Xinjiang as

well as imposing heavy financial sanctions. Its intention to launch a financial contest with and seek disconnection from China is beginning to manifest itself. Moreover, the more the pandemic disrupted the supply chain and weighed down economy, the more panicked the international financial market and the stronger the USD is as a major haven currency. The USD index returned to No. 103 after a lapse of four years, which inhibited the use of RMB to a certain extent. The EUR also seized the opportunity to shore up its own monetary status. The EU withdrew from the digital chain and sped up building the digital EUR with a view to improving EUR internationalization in the following five years.

2.4.2 Accelerating Capital Account Convertibility and Holding the Bottomline of Risk

International currencies need to satisfy the requirement of free exchange. At the early phase of RMB internationalization, there was more focus on settlement in cross-border trade than on capital account convertibility. Although the internationalization of a currency does not necessarily entail complete convertibility of capital account as a prerequisite, as financial transaction has turned out to be the main driving force of RMB internationalization, there exists a need to sort out the advantages and disadvantages, achieve project suitability and policy coordination, as well as accelerating the opening-up of the financial market and cutting down restriction on capital account. Centering on the goals of China's new development pattern and national economic and financial security during the 14th Five-Year Plan, there is an urgent need to discuss the objectives, sequences, risks and routes of capital account that align with our goals, reassess the financial management framework

and establish a regular management system and emergency response mechanism for cross-border capital movement.

2.4.3 Imbalance in RMB Inflow and Outflow and in RMB Investment and Financing

With the pandemic raging across other countries and the “flooding” of world currencies in 2020, huge amounts of foreign capital were directed to China and holdings of RMB assets rocketed. While a large-scale inflow of foreign capital within a short period is good for stabilizing foreign investment, exchange rate and market confidence, capital inflows like this tend to be short-lived and prone to fluctuation. If the external environment deteriorates or if international political and economic gaming reaches a certain special point, a large-scale capital flight will undoubtedly deal a blow to the RMB exchange rate, undermine economic and financial stability and crush the confidence in RMB internationalization. In stark contrast to RMB assets which enjoyed much favor with international investors and the quick blowup of global RMB debts, the RMB encountered impediments in the field of international financing. According to BIS statistics, the balance of international bonds priced in RMB in 2020 shrank by roughly 30% compared to the peak of 2015. The imbalance in the inflow and outflow of RMB capital and its functions is not conducive to the medium- and long-term development of RMB internationalization.

2.5 Suggestion on Expanding Cross-border RMB Use Scenarios

China needs to think ahead and form a correct understanding of the gravity of the situation. It must reconsider the significance of RMB internationalization as it aims to ensure economic and financial security.

Efforts should be made to give full play to the advantages of China's market and institutional system to find a balance between short-term and long-term profits as we accelerate RMB internationalization during the 14th Five-Year Plan.

Attention should be directed to the retailing and individual payment of cross-border RMB transactions, improving capital movement, making use of digital technologies and digital currencies to achieve overtaking at corners and promoting cross-border use of RMB in the field of services trading. We should use trade routes as the major strategic choice to expand RMB credit loans and encourage enterprises and financial institutions to better embrace the Belt and Road countries.

Efforts should be made in exploring the feasibility of RMB as a means of international financial transaction, continuing to optimize and improve the opening-up mechanism of bond markets, simplify the market-entry procedures for foreign institutions and integrate market-entry channels, in order to provide a more friendly and convenient investment environment for international investors and expand the scale of panda bonds. As the RMB value remains stable and progresses uphill in a steady manner, we should seize the opportunity to carry on the reform of the formation mechanism of RMB exchange rate, establish the concept that a stable, predictable exchange rate mechanism outweighs the stability of the exchange rate itself, and improve the appeal of RMB assets to international investors. Through big data technologies, we should build up cross-border RMB movement surveillance and warning capacities, improve the macro-level framework for discreet management and the discreet macro-level policies in order to hold fast to the bottom line and avoid systemic risks.

The pursuit of departmental interests must be stopped and state-owned enterprises should be encouraged to take the lead in using RMB in

international trade, investment and financing so as to erase the institutional and policy impediments to RMB use for enterprises. RMB investment, financing and asset management should be treated as priorities in expanding RMB international use during the 14th Five-Year Plan so as to satisfy the needs of international investors.

Part III The Current Situation of RMB Internationalization

3.1 Cross-border Trade RMB Settlement

3.1.1 Scale and Ratio of RMB Settlement Attained Moderate Progress

In 2020, RMB became the choice of more and more multi-national corporations. Current account cross-border trade RMB settlement² totaled 6.77 trillion yuan, up by 730 billion yuan compared to 2019 and registering a year-on-year increase of 13%, surpassing the growth rate of exports and imports; cross-border trade RMB settlement accounted for 19.55% of the aggregate trade volume of Chinese commodities and services, up by 2.14 percentage points compared to the end of 2019.

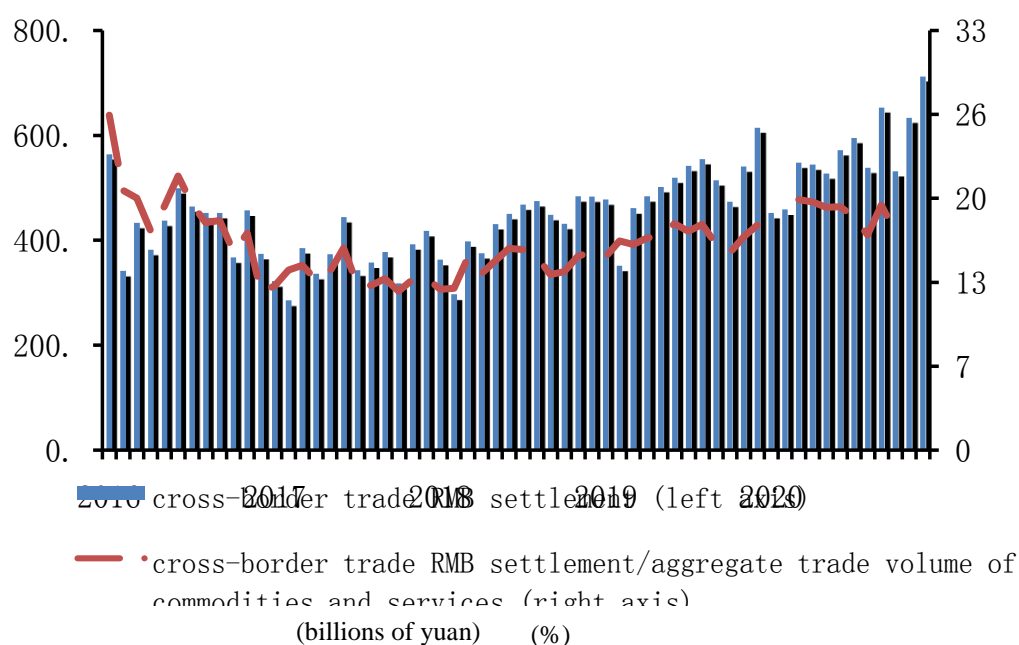


Figure 5 Scale of Cross-border Trade RMB Settlement

Source of data: The People's Bank of China, The Ministry of Commerce, State Administration of Foreign Exchange

² This includes cross-border Commodities trading, services trading and other current account items.

3.1.2 Settlement Centered on Commodities Trading While Services Trading Achieved Steady Growth

Commodities trading RMB settlement in 2020 totaled 4.79 trillion yuan, up by 12.7% compared to 2019 and accounting for 70.8% of the aggregate cross-border RMB settlement of the year; services trading RMB settlement totaled 1.98 trillion yuan, a year-on-year increase of 10.6% and accounting for 29.3% of the aggregate cross-border RMB settlement for the year. Since 2017 the annual growth rate of cross-border services trading RMB settlement has averaged 15.6%, 8.9 percentage points higher than the average annual growth rate of cross-border trade RMB settlement.

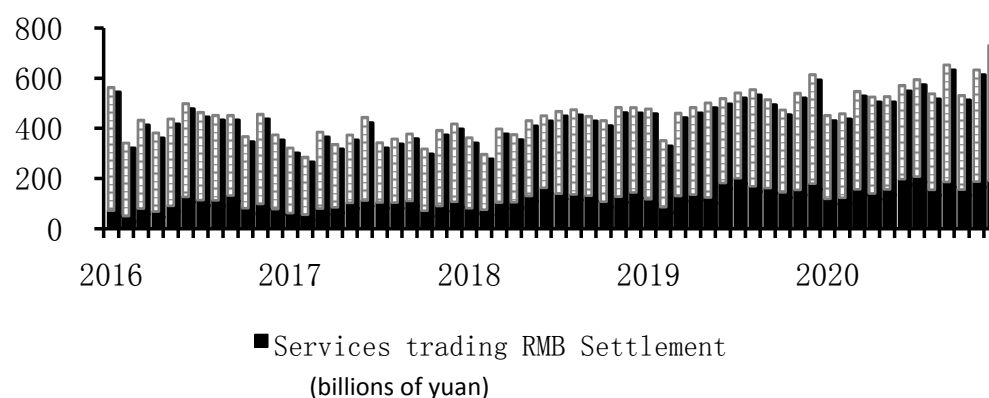


Figure 6 Scale of Commodities trading and Services trading RMB Settlement

Source of data: The People's Bank of China

3.1.3 Capital Account Experienced a Higher Growth Rate While Payments and Receipts Remained Basically Balanced

In 2020, China's cross-border RMB payments and receipts totaled 28.4 trillion yuan, up by 44% year-on-year. Both RMB outflow and backflow outperformed those of 2019. After RMB trade settlement

expanded to include receipts and payments of RMB settlement for capital financial transactions in 2014, 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 followed by a slight receipts-to-payments surplus in 2019 and 2020, it was a small deficit again in 2020, with cross-border RMB receipts-to-payments ratio of 1.01. Actual receipts totaled 14.1 trillion yuan while actual payments totaled 14.3 trillion yuan. Since 2017, the receipts-to-payment ratio has remained balanced and steady.

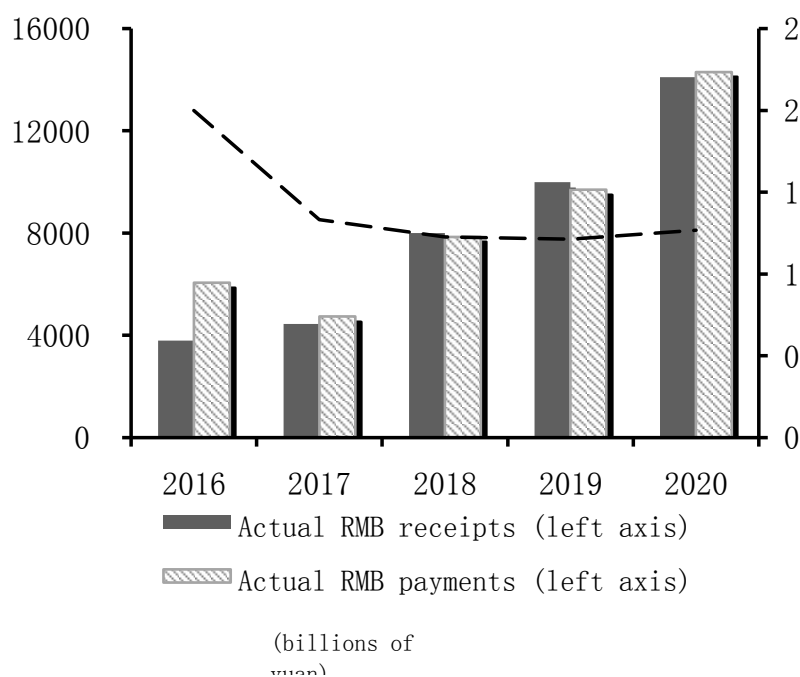


Figure 7 Cross-border Trade RMB Receipts-to-payments Ratio

Source of data: The People’s Bank of China

3.1.4 Third-party Payment Platforms Played a Crucial Part in Expanding RMB Settlement Channels

While the global spread of coronavirus dealt a heavy blow to international trade, it gave a boost to China’s cross-border e-commerce

transactions. According to the statistics from the Customs, the export and import lists inspected and approved via the Customs cross-border e-commerce management platform numbered 2.45 billion, up by 63.3% year-on-year. Cross-border e-commerce import and export volume for the whole year reached 1.69 trillion yuan, up by 31.1%. Tens of thousands of traditional foreign trade enterprises joined the network for improved quality and efficiency. Cross-border e-commerce has become the new engine for the advance of China’s foreign trade.

3.2 RMB-denominated Financial Transactions

3.2.1 RMB-settled ODI

3.2.1.1 ODI and RMB-settled ODI Both Rose Significantly

In 2020, China’s ODI reached 916.97 billion yuan (132.94 billion U.S. dollars), up by 3.3% compared to 2019. RMB-settled ODI reached 1.05 trillion yuan, up by 38.2% year-on-year and reversing the negative growth shown in 2019 .

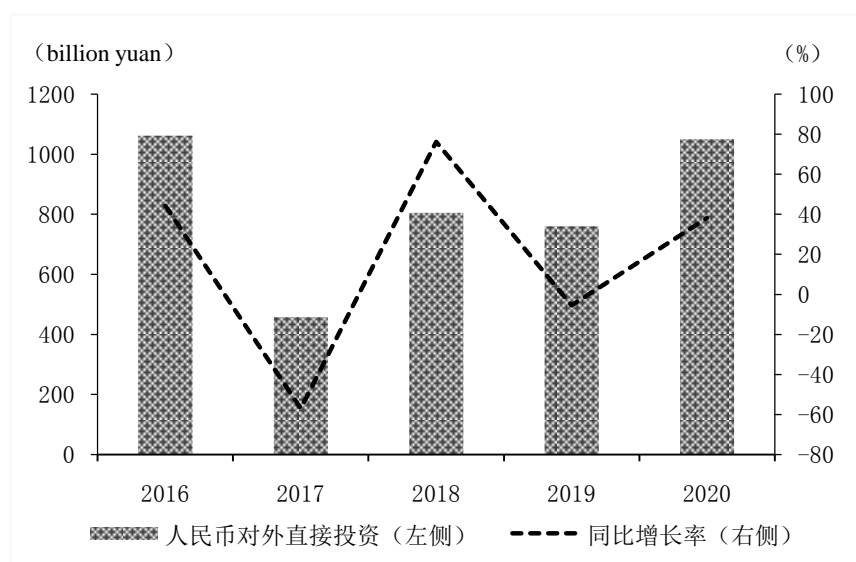


Figure 8 Outbound Direct Investment (ODI) in RMB

ODI in RMB (left axis)

Year-on-year growth rate (right axis)

Source: People’s Bank of China

3.2.1.2 Foreign Capital Actually Used Rose Despite of the Global Situation While RMB-settled FDI Increased Steadily

In 2020, Foreign Capital Actually Used in China was 999.98 billion yuan, increasing by 6.2% from 2019 and reaching a historical high. RMB-settled FDI reached 2.76 trillion yuan, up by 36.6% from 2019.

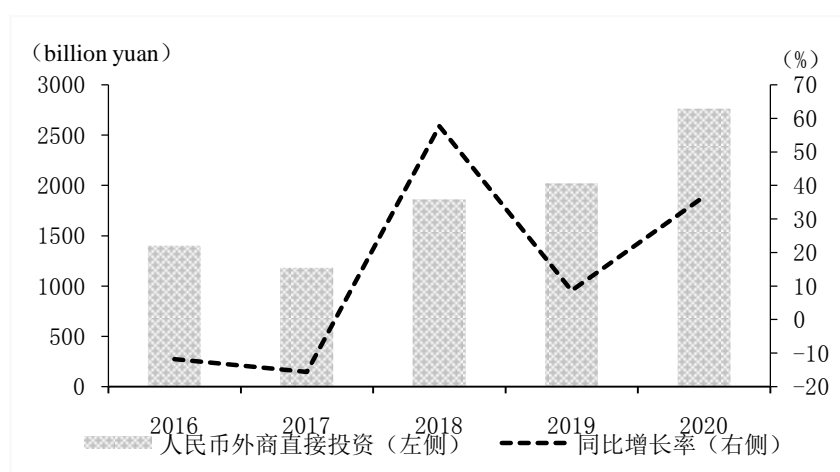


Figure 9 Foreign Direct Investment (FDI) in RMB

FDI in RMB (left axis)

Year-on-year growth rate (right axis)

Source: People's Bank of China

3.2.2 Investment in RMB-denominated Securities

3.2.2.1 The Offshore RMB-denominated Bond Market Continued to Develop While the Panda Bond Issuance has Slightly Decreased

In 2020, 374 RMB-denominated bonds have been issued in the offshore market, up by 89 compared to 2019; the amount issued totaled 206.52 billion yuan, increasing by 15% from 2019. A total of 24 entities in the Chinese bond market issued 43 rounds of panda bonds, totaling 58.650 billion yuan and representing a slight decrease of 1.99% compared to 2019.

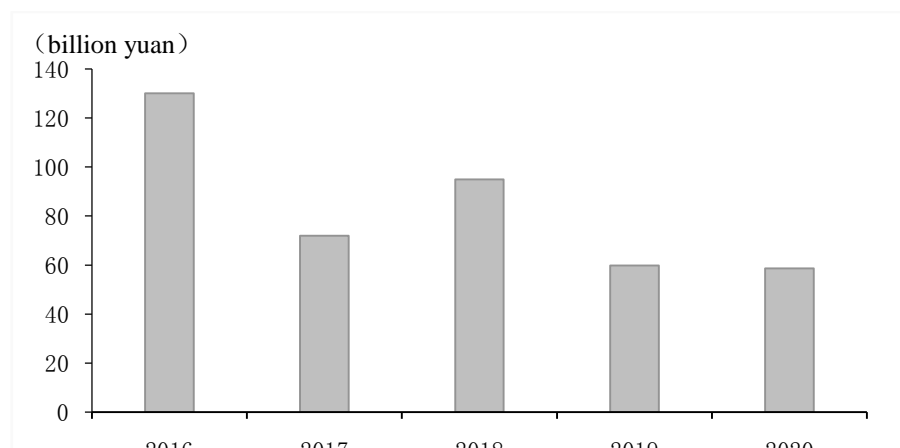


Figure 10 Issuance Details of Panda Bond

3.2.2.2 The Stock Market’s Financing Function Was Enhanced, and the Capital Market Continued to Accelerate its Opening-up

In 2020, 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 rose by 13.9%, 38.7% and 65.0% year-on-year respectively. From the beginning to the end of the year 2020, the average price-to-earnings ratio rose from 14.42 to 16.76 in Shanghai Stock Exchange and from 26.73 to 34.51 in Shenzhen Stock Exchange.

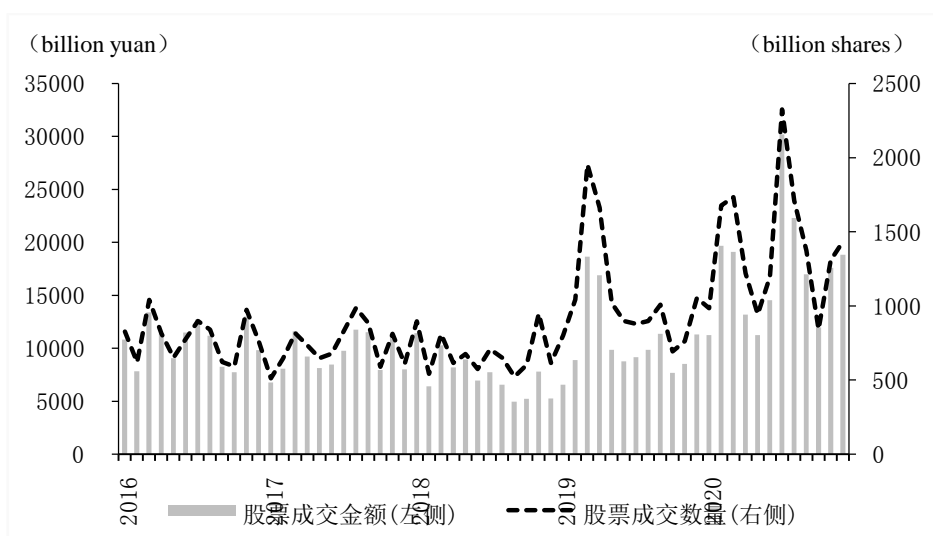


Figure 11 Chinese Stock Market Turnover

Chinese stock market turnover (left axis)

Number of stock transactions (right axis)

Source: Shanghai Stock Exchange³, Shenzhen Stock Exchange⁴

The capital market continued to accelerate its opening-up to the outside world. On September 10, 2020, the CSRC, the PBoC and the SAFE jointly published the new QFII/RQFII regulations to announce to lift the restrictions on investment quotas for QFII and RQFII, and continue to lower the market access threshold, expand the scope of investment and strengthen consistent regulation. By the end of 2020, a total of 45 overseas institutions have passed the reviewed conducted by the CSRC, up by 39 compared to 2019, increasing the total number of qualified foreign institutional investors to 558.

3.2.2.3 The Development of the Derivatives Market Made New Breakthroughs

Under the impact of the COVID-19 Pandemic, enterprises' haven demand was on the rise. In 2020, both the total trading volume and the total deals registered a historical high. The cumulative trading volume of the national futures market reached 6.152 billion lots, a year-on-year increase of 55.29%, and the total deals reached 437.53 trillion yuan, a year-on-year increase of 50.56%. In 2020, the futures market launched 12 new futures types such as LPG futures, low-sulphur fuel oil futures, short fiber futures and international copper futures, and first created the futures types "launched through cloud" to aid enterprises to deal with price fluctuation risks and optimize the trade pricing mechanism. China's futures market was opening up through more diversified channels, with

³ <http://www.sse.com.cn/market/stockdata/overview/monthly/>

⁴ <http://www.szse.cn/market/stock/situation/monthly/index.html>

more and more types opened up. By the end of 2020, the total number of futures types opened up to the world reached 7, including crude oil futures, iron ore futures, PTA futures, TSR 20 futures, low-sulphur fuel oil futures, international copper futures and palm oil futures. The futures exchanges follow the general plan featuring “international platform, clean price, bonded delivery and RMB denomination” to introduce overseas traders, and this practice can serve the Belt and Road Initiative and steadily push forward RMB internationalization.

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)
2016	87018	98587
2017	137974	143462
2018	184560	210863
2019	237744	181529
2020	274029	195565

Source: China Foreign Exchange Trade System

In 2020, the total deals in the inter-bank RMB interest rate derivatives market reached 19.9 trillion yuan, a year-on-year increase of 6.8%. The interest rate derivatives market has shown richer derivative types, broader transaction entities and more active trade. Among exchanges that run RMB interest rate derivatives, HKEx has completed 1.768 million USD/CNH futures contracts, down by 8.8% from 2019, and had 28,000 open positions, up by 21.7% from 2019. CME has witnessed steadily growth in USD/CNH futures contract trade volume; it has completed 0.278 million USD/CNH futures contracts, down by 15.6% year-on-year, and had 4,713 open positions, up by 205.2% year-on-year. From January to November of 2020, SGX has completed 9.168 million USD/CNH futures contracts, up by 15.6% year-on-year, and had 92,000 open positions, up by 59.5% year-on-year.

3.2.2.4 RMB-denominated Financial Assets are Favored by International Investors

At the end of 2020, the balance of domestic RMB-denominated financial assets held by overseas institutions and individuals increased to 8.98 trillion yuan, representing a rapid year-on-year increase of 40.11% and continuing its growth momentum since 2016. Among the RMB-denominated assets held by non-residents, stocks account for the biggest share, followed by securities, deposits and loans. Since the beginning of 2020, there is an apparent trend among overseas investors to increase their holdings of Chinese securities and stocks.

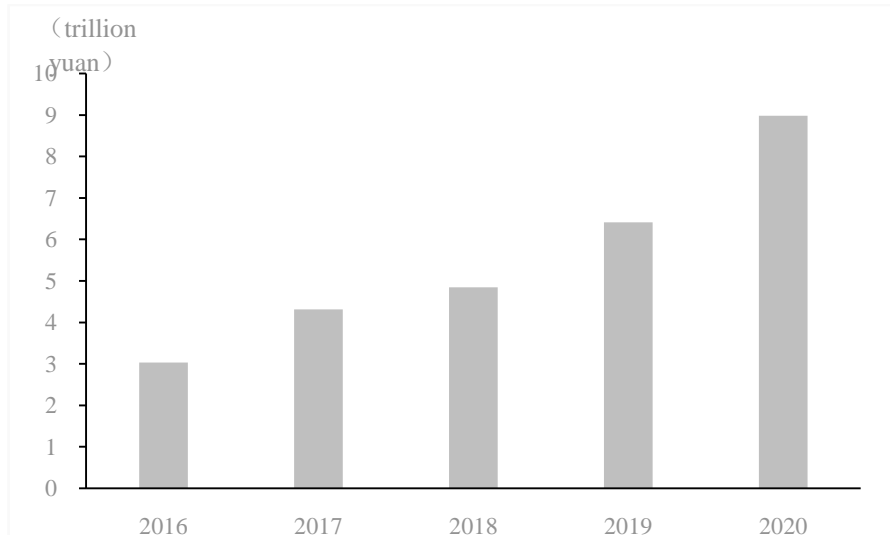


Figure 12 RMB-denominated Financial Assets Held by Overseas Institutions and Individuals

Source: People’s Bank of China⁵

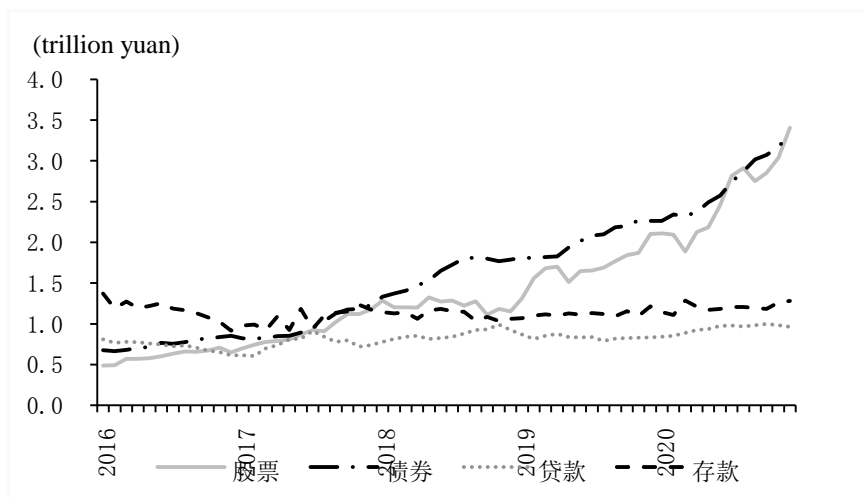


Figure 13 RMB-denominated Financial Assets Held by Overseas Institutions and Individuals

Stocks Securities Loans Deposits

Source: People’s Bank of China⁶

3.2.3 RMB-denominated Outbound Loans

⁵ <http://www.pbc.gov.cn/diaochatongjisi/resource/cms/2020/11/2020110417475871026.pdf>

⁶ http://www.nafmii.org.cn/xhdt/202101/t20210114_84090.html

In 2019, RMB-denominated overseas loans of domestic financial institutions reached 609.59 billion yuan, up by 13.56%. RMB-denominated overseas loans accounted for 0.35% of total loans by Chinese financial institutions, equalling the level of 2019. (See Figure 14)

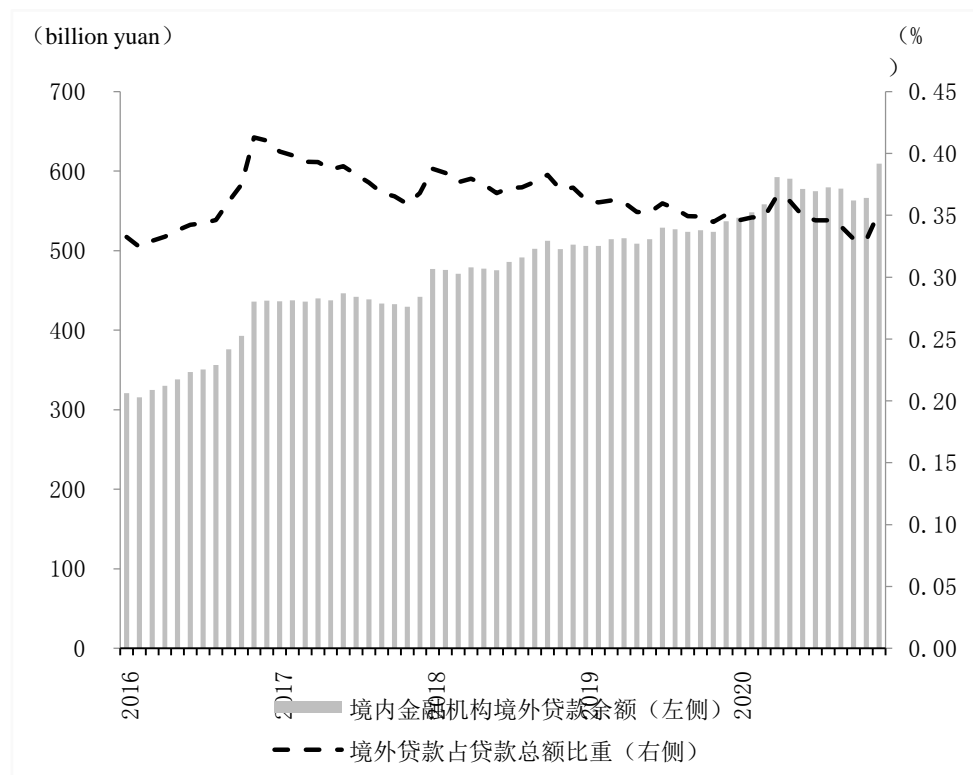


Figure 14 RMB-denominated Outbound Loan Balance and its Share of Chinese Financial Institutions

RMB-denominated outbound loan balance of Chinese financial institutions

Share of RMB-denominated outbound loan balance of Chinese financial institutions

Source: People’s Bank of China⁷

3.2.4 RMB Foreign Exchange Trade

According to statistics from the State Administration of Foreign Exchange (SAFE)⁸, the foreign exchange market turnover totaled

⁷ <http://www.pbc.gov.cn/diaochatongjisi/116219/116319/3959050/3959053/index.html>

206.38 trillion yuan in 2019, an increase of 2.73% year-on-year. Foreign exchange spot transactions totaled 82.06 trillion yuan, a year-on-year increase of 4.78%; foreign exchange derivatives transactions reached 123.98 trillion yuan, a year-on-year increase of 1.42%, and its proportion in the foreign exchange market slightly fell to 60.17%. The bank-to-customer market transactions reached 31.24 trillion, a year-on-year increase of 10.08%; the inter-bank forex market transactions reached 174.79 trillion, a year-on-year increase of 1.52%.

In the past five years, the foreign exchange derivatives market grew rapidly from 2016 to 2018, followed by a period of steady growth, with its volume basically unchanged. In 2020, the foreign exchange derivatives transactions participated by overseas institutions totaled 5050.58 billion yuan, a year-on-year increase of 101.8%.

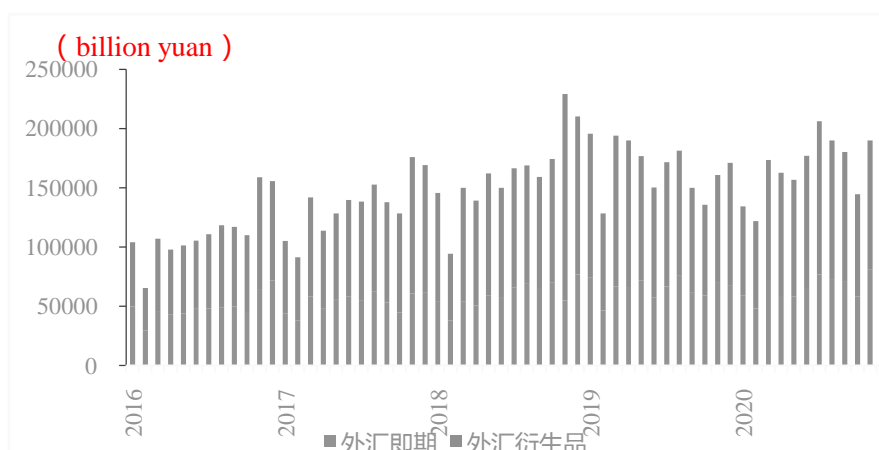


Figure 15: RMB Forex Market Transactions

Foreign exchange spot transactions (black bar)

Foreign exchange derivatives transactions (grey bar)

Source: China Foreign Exchange Trade System (CFETS) **错误！未**

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⁸ The statistics of the foreign exchange market are only limited to transactions between RMB and foreign exchanges, and transactions among foreign exchanges are not included.

3.3 RMB in Global Foreign Exchange Reserves

The scale of RMB global foreign exchange reserves increased from US\$90.29 billion in 2016 to US\$267.52 billion in 2020, growing for ten seasons consecutively. So far, 75 countries and regions have included RMB into their foreign exchange reserves. The increasing proportion of RMB in global foreign reserves fully represents the appeal of RMB-denominated assets in terms of safety, openness and convenience.

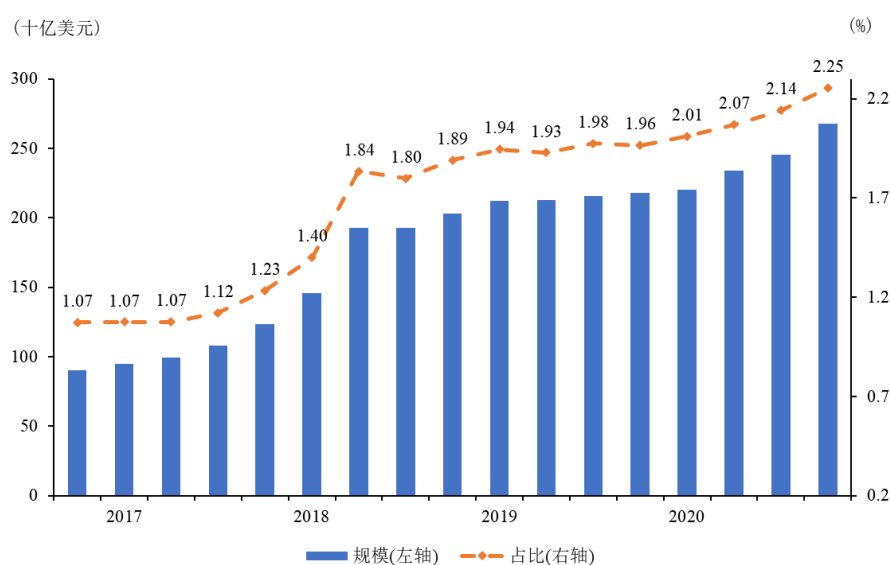


Figure 16 RMB's Size and Share in Official Foreign Exchange Reserves

Billion U.S. dollars

Volume (left axis)

Share (right axis)

Since 2008, the People's Bank of China has signed bilateral currency swap agreements with the central banks or monetary authorities of 39 countries and regions, covering all main developed economies, emerging economies and locations of main offshore RMB markets. By the end of 2020, there were 30 effective RMB-related currency swap agreements, with a total volume of 3.6 trillion yuan.

3.4 RMB Exchange Rate

3.4.1 RMB Exchange Rate

In 2020, we continued to promote the exchange rate forming mechanism reform, enhance the elasticity of RMB exchange rate, and allow the exchange rate to play the role of adjustment of the macroeconomic and the automatic stabilizer of international balance of payments. We paid attention to the guidance of expectations to create conditions for orderly foreign exchange market operation and basic stability of the RMB exchange rate at a reasonable and balanced level.

3.4.1.1 The Currency Exchange Rates Against Major Countries are Either Appreciating or Depreciating

In 2020, the exchange rates of the RMB against major international currencies are either appreciating or depreciating, floating in both ways. The central parity rate of the RMB against the US dollar appreciated after depreciation, and stayed at 6.5249 at the end of the year, up by 6.92%; that against the European euro fluctuated stronger in both ways, ending up at 8.0250 with a year-on-year depreciation of 2.61%; that against the Japanese yen was stable, reaching 6.3236 with a year-on-year appreciation of 1.34%; that against the pound was volatile, ending up at 8.8903 with a year-on-year appreciation of 2.92%.

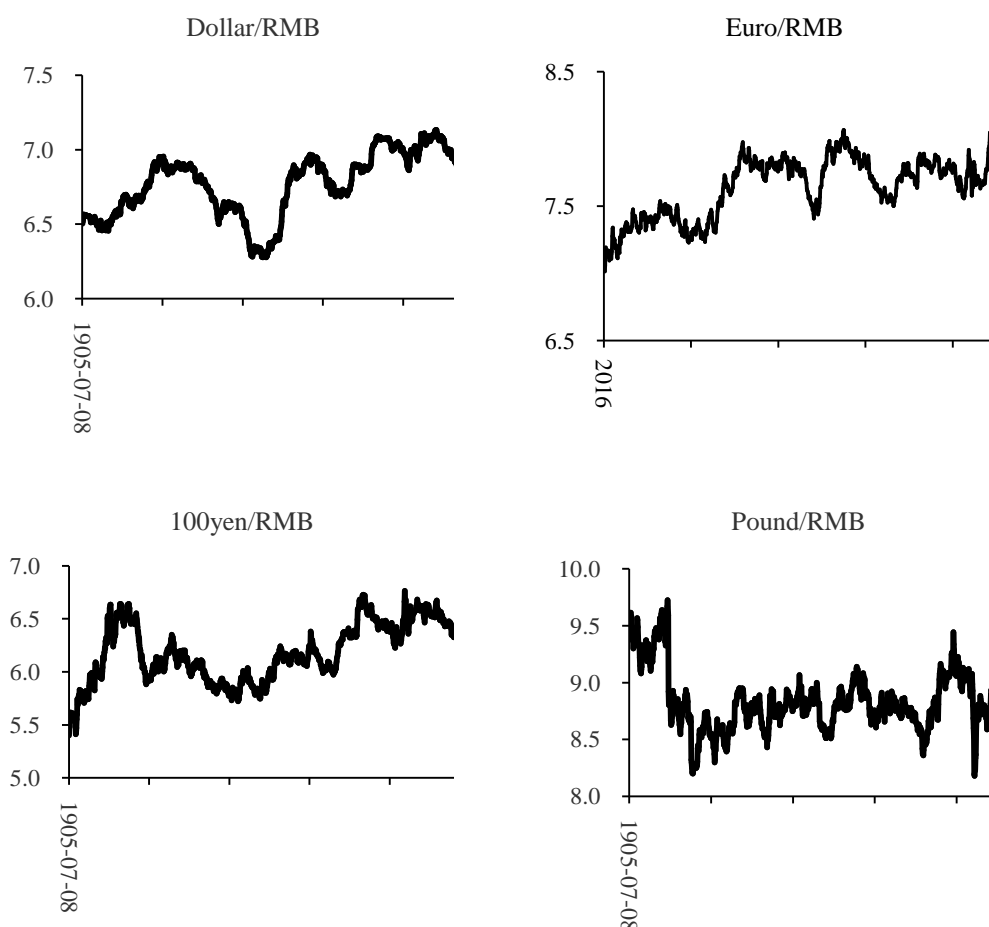


Figure 17 The Central Parity Rate of RMB against Major International Currencies (from 2009 to 2019)

Source: Wind

3.4.1.2 The Real Effective RMB Exchange Rate Fell After Rise

The real effective RMB exchange rate in 2020 fell after rise, and it showed a trend of rebound in the latter half of the year. At the end of 2020, the nominal real effective exchange rate index of RMB was reported at 119.04, an appreciation of 4.05% year-on-year. The real effective exchange rate index (with inflation factors deducted) was 126.31, up by 3.33% and reaching a new high in ten months. (See Figure 18)

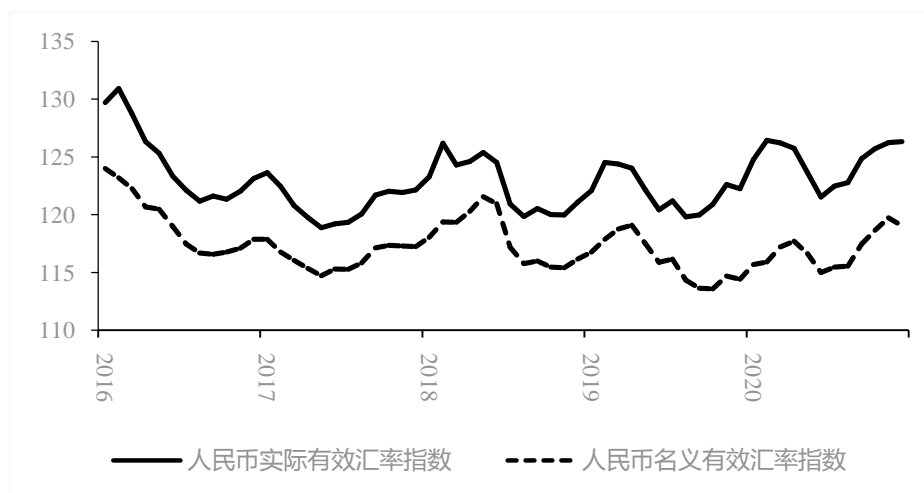


Figure 18 The Trend of the Effective Exchange Rate of RMB
The Index of nominal effective exchange rate of RMB (dotted line)
The Index of real effective exchange rate of RMB (full line)

Source: Bank for International Settlements

3.4.1.3 The RMB Exchange Rate Index Rose

At the end of 2020, the CFETS MB exchange rate index was reported at 94.84, up by 3.78% year-on-year; the RMB exchange rate indices of the BIS currency basket and the SDR currency basket were 98.68 and 94.23 respectively, up by 3.78% and 2.64% for the whole year.

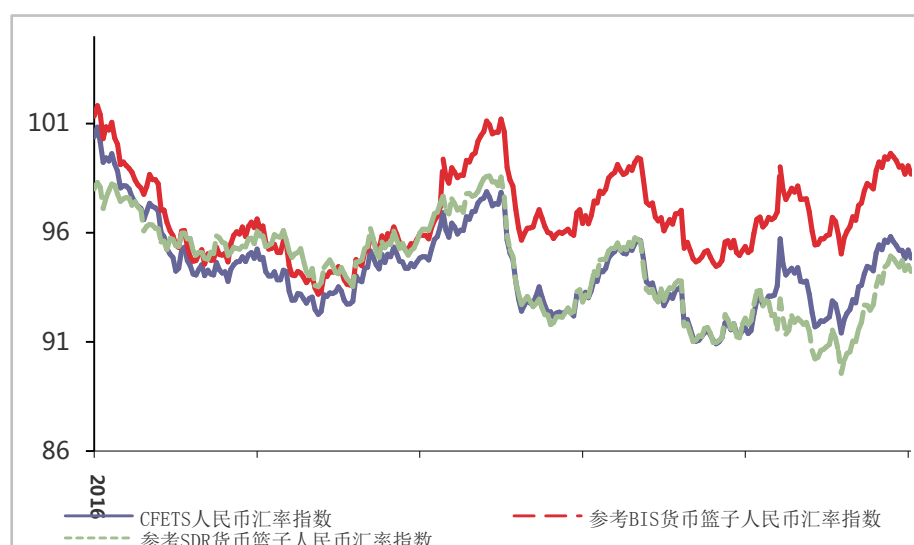


Figure 19 RMB Exchange Rate Indices
CFETS RMB exchange rate index (blue line)

RMB exchange rate index of the BIS currency basket (red line)
RMB exchange rate index of the SDR currency basket (green line)
line)

Source: China Foreign Exchange Trading Center

3.4.1.4 The Two-way Fluctuation of Offshore RMB

In 2020, the trends of CNY and CNH remained basically the same, showing two-way fluctuations. CNY and CNH reached the peak of the year on May 28th and May 27th, at 7.1600 and 7.1766, and closed at 6.5398 and 6.5030 on December 31st. The average annual spread between CNY and CNH in 2020 is 118.82 basis points, close to that in 2019.

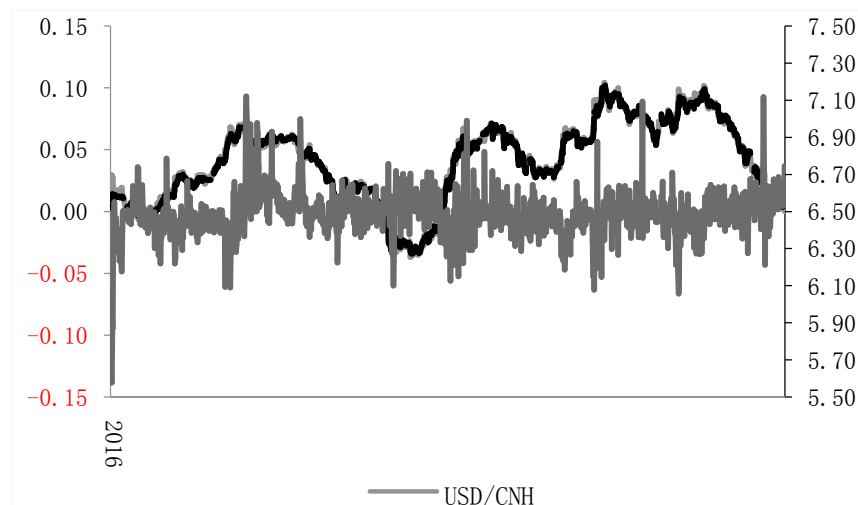


Figure 20 The Exchange Rates of CNY and CNH and Their Spread, 2013-2020

Source: Wind

3.4.1.5 RMB NDF Depreciation Widened

As of the end of December 2020, the 1-month, 3-month, 6-month and 1-year RMB NDF closing prices were 6.5365, 6.5685, 6.6065 and

6.6785 respectively. Compared with the same period in 2019, the exchange rate of RMB against the US dollar appreciated by 6.56%, 6.21%, 6.06% and 5.43% respectively in the four above-mentioned NDF transactions, showing a widening trend. (See Figure 21)

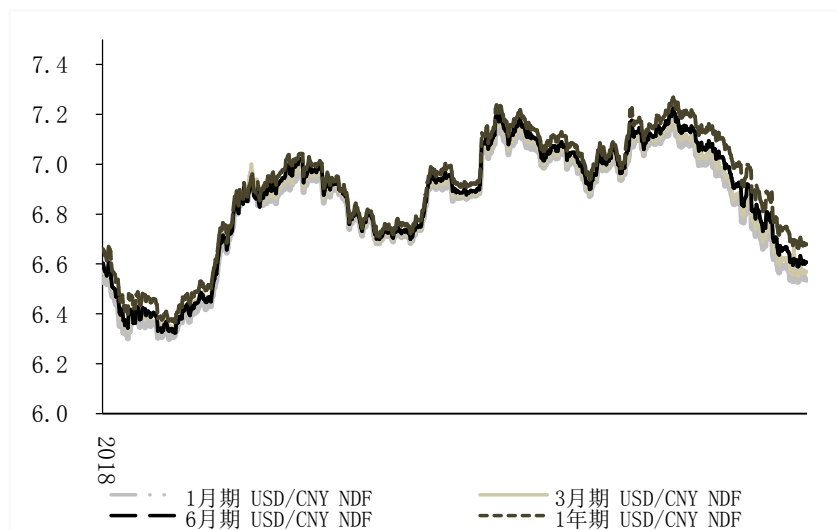


Figure 21 RMB NDF Daily Comprehensive Closing Price, 2018-2019

1-month

3-month

6-month

1-year

Source: Wind

Part IV Promoting Dual Circulations to Push Forward RMB Internationalization

4.1 Promoting Domestic and International Circulations to Provide Strong Support for Currency Internationalization

International experience shows that the domestic circulation is the precondition for currency internationalization, while the external circulation is a means of currency internationalization. The “Domestic

Circulation” determines the scale and structure of the domestic consumption market and investment market, so as to fundamentally create RMB demand; the “International Circulation” realizes inclusive development and risk sharing in the international arena, and adds to the scenarios and adhesiveness of the international use of RMB. China needs to make major breakthroughs in promoting both the domestic and international circulations.

The focus of promoting domestic circulation is to unleash the potential for consumption growth and develop an outside domestic market. First, we will strengthen income distribution adjustment and expand the middle-income group; second, fiscal expenditure will be more inclined to people’s livelihood and the public sector, be inclusive, meet essential needs, and ensure basic living standards for people in difficulty, so as to create favorable conditions for the development of the tertiary industry and consumption growth; third, we will implement prudent monetary policies to keep liquidity at a reasonable and abundant level, keep the domestic price level basically stable and boost consumers’ confidence. Fourth, we will actively develop a quality-oriented, integrity-based, uniform and open domestic market with orderly competition to stimulate external demand with internal demand.

We will promote international circulation and enhance the function of the RMB as an international currency through multiple channels and platforms. We will give play to our leading advantages in areas of digital currency, mobile payment and AI to develop all kinds of match-making and trading platforms and enhance the payment function of RMB. We will take ASEAN, Central Asia, Middle East and Africa as key areas for promoting international circulation and improving the level of RMB use. We will utilize ODI to drive trade financing and the export of equipment, labor and technology, and develop a docking mechanism between

outbound investment and domestic circulation through import. We will adopt market-based means such as stabilizing market shares, streamlining payment process and avoiding exchange rate risks to encourage enterprises to use RMB for pricing and settlement and build the double closed-loop of RMB capital flow and trade flow.

4.2 Improving Technological Innovation and Unchoking the Dual Circulation to Improve National Governance

We will catch the tide of the fourth industrial revolution and stick to the new-type industrialization path with Chinese characteristics to improve the ability of creating demand with supply. We will build the organic bond between technology, capital, market and policy, and give play to both the government and the market to successfully transform a large batch of traditional manufacturing enterprises, integrate smart manufacturing into production, develop new production models, and focus on fostering leaders of the new industrial revolution like Huawei and ZTE, so as to improve the innovation ability of the manufacturing industry.

We will optimize the technological innovation system, improve the research funding evaluation system, better preferential tax and subsidy policy rules related to technological innovation and create an orderly environment for fair play. We will focus on the expansion of domestic demand and the domestic circulation and develop a batch of national-level labs in relevant sectors to enhance basic research and shore up the weak links in the manufacturing industry. At the same time, we will stick closely to the dual circulation, pay attention to international cooperation on industrial chains, reinforce each other and strengthen the technical support for effective supply. We will use the commodity market, the labor market and the capital market as important channels to unchoke the

domestic circulation and accelerate market integration. First, we will speed up the development of a safe and efficient logistics network to make logistics smarter and more modern, and improve the depth of traffic accessibility. We will reduce the trade barriers caused by local protectionism, share market supervision information, optimize inter-regional market access, strengthen the cooperation and exchanges of products, production factors and production technologies among regions and promote fair play among different market players. Second, we will speed up the urbanization of migrant farmers, improve the labor information sharing service platform and create cross-region jobs for laborers. We will strive to cut labor cost in multiple dimensions and push ahead with the sorted housing supply system, which provides commercial residential housing for the high-income group, affordable housing with proper social security subsidy for the middle and low-income group and low-rent housing with large social security subsidy for the group with the lowest income, so as to lower housing prices in a reasonable manner. Third, we will continue to deepen supply-side financial reform, develop inclusive finance and promote digital transformation of financial institutions to create important impetus and catalyst for the creation of supply. We will develop a multi-layer capital market, increase the proportion of direct financing, built a reasonable transition mechanism between different layers of the capital market, and ensure effective interaction between different layers of the capital market in areas with scarce financial resources, so as to realize balanced and coordinated regional economic development and build a “financial ecosystem” in which market main players and financial institutions can yield mutual benefit and win-win results.

We will improve national governance to promote sound and stable development of domestic circulation and lay a solid political foundation

for RMB internationalization. First, we will focus on improving the tax structure and cutting tax and fees. We will cancel some tax categories with small contributions, increase the contribution from income tax and property tax and channel the policy dividend to market players. Second, we will continue to cut the negative list to open up more sectors of the economy in a more thorough fashion. We will actively participate in the governance of global and regional international organizations, push forward the formation of economic governance mechanisms, rules and standards in emerging sectors such as digital economy and green development, so as to build a more fair and reasonable global governance system. Third, we will identify the market boundary, further delegate power and provide institutional guarantee for the market to play the main role in resource allocation. We will keep our policies continuous, stable and sustainable to stabilize market expectations to enable the market mechanism to serve as the adjustment. Fourth, we will build an intellectual property publicity system which is jointly organized and attended by the government, industry associations, enterprises and schools to let the idea of IPR protection take root among people. We will actively revise the implementation rules of the Patent Law, accelerate the revision of the Provisions of the Product Protection of Geographical Indications and improve the legislation of IPR protection. We will enhance coordination and cooperation among departments to deepen whole-link IPR protection.

4.3 Leading High-level Opening Up Through Trade Innovation to Lay the Foundation for RMB Internationalization

We will take trade in service as key to trade innovation, expand the pilot zones of trade in service and build differentiated innovative development platforms of trade in service. We will adopt digital

technologies to improve the digital delivery capacity in key areas such as IT, financial insurance, intellectual property, management consultation, and medical education.

We will host a successful CIIE, and improve its domestic spillover effect to meet residents' needs for consumption upgrade. At the same time, we will enable the CIIE to exert the catfish effect at the supply side to improve resource allocation efficiency. The CIIE will guide the development of the Yangtze River Delta city cluster, and facilitate regional integration of the Yangtze River Economic Belt. We will give play to the CIIE's demonstration effect in the world, drive foreign investment through trade, attract more foreign enterprises to enter the Chinese market and accelerate the development of a new pattern featuring positive interplay between domestic circulation and international circulation.

We will both intensify investment abroad and strengthen inter-regional linkage at home to deepen reform and opening up of free trade zones. We will provide good institutional guarantee in areas of enterprise service, IPR protection and business dispute settlement, remove unnecessary investment barriers, create duplicable and sharable experience and give play to the free trade zones' demonstrative effect. We will create the channels to transfer the dividend of reform from coastal areas to inland areas and from free trade zones to non-free trade zone areas, so as to exert the radiation effect of innovation outcomes and promote coordinated and rapid regional economic development.

The RCEP has provided institutional guarantee for the region to expand trade and reduce trade cost. We suggest that China develop more RIB-denominated futures products, provide more convenient trading mechanisms, reduce trade cost, utilize our comparative advantages against European and US exchanges, and encourage Chinese transnational

corporations and state-owned enterprises to more actively participate in the commodity futures market. We should relax the restrictions on real-demand-based trade, and allow enterprises to use the commodity futures market as an integrated risk management tool. Besides, we should learn from the practice of the commodity futures markets in Europe and the US, properly expand the participation of financial institutions, private equity and hedge funds in the futures market, make the market more international and add to the trade vitality and the impact on pricing.

4.4 High-quality “Belt and Road” Development and RMB Internationalization Promote Each Other

We should clear the path for the implementation of Belt and Road Initiative, and propel the mutual promotion and supplement of high-quality Belt and Road development, the new pattern of dual circulation and RMB internationalization. We should pursue connectivity among high-quality policies, rules and standards to lay the rule foundation for RMB internationalization; we should use high-quality infrastructure connectivity to drive cross-border RMB infrastructure investment and financing and take the integration of investment, financing, construction and operation of overseas infrastructure programs; we should pave the way for RMB settlement through high-quality trade connectivity; we should create a carrier and platform for RMB’s international use through high-quality finance connectivity; we should improve China’s leading role in the Belt and Road international circulation through high-quality international industrial cooperation and lay the foundation for RMB asset pricing; we should create a solid public opinion basis for RMB’s international use through high-quality people-to-people connectivity.

We should seek breakthroughs and make efforts beforehand in the following dimensions: (1) we should develop Belt and Road commodity

trade platforms, accelerate the integration of commodity trade rules and terms, intensify the innovation of the service system and the supervision system, improve financial services and develop competitive commodity pricing centers to promote commodity trade and RMB pricing. (2) We should develop a multi-layer and fairly comprehensive infrastructure investment and financing system, give play to AIIB, NDB, sub-regional banks and sovereign national development financial institutions, use the “joint loan” model to leverage international capital and deepen the co-development of a “bank union” framework with banks from Belt and Road countries. We should encourage the use of RMB in infrastructure program financing. (3) We should develop Belt and Road digital trade, explore ways to develop systems on e-commercial full-range statistics, taxation and trade facilitation and consumer protection, so as to win the right of speech in the global digital trade rule-making. (4) We should enhance bilateral and multilateral financial and monetary cooperation, establish normalized coordinating agencies for multilateral cooperation on infrastructure development financing and formulate uniform investment rules. We should sign regional financial and monetary cooperation agreements with countries and regions along the Belt and Road to encourage relevant countries to expand the scale of RMB reserves.

4.5 Developing an Efficient Interaction Mechanism Between Offshore and Onshore Markets to Strengthen RMB’s Financial Transaction Function

Realizing effective interaction, coordinated development and continuous integration between the offshore market and the onshore market is key to the RMB internationalization process. We should aim to accelerate the development of the new development model of dual

circulation and cover all key countries and regions with offshore RMB centers to enable foreign enterprises, individuals, institutions and governments to use RMB. We should develop a price linkage system between offshore markets and onshore markets and a firewall system, and establish an exclusive account system for offshore markets to prevent rapid external risk contagion and provide a buffer zone for domestic financial safety. We should expand the connection between offshore markets and onshore markets, build interest rate corridors in offshore markets and establish a risk hedging mechanism and a liquidity safeguard mechanism for RMB financial market transactions. First, we should take foreign exchange transactions as the main channel for foreign exchange rate interaction, push forward cross-border capital settlement through foreign exchange transactions and change the supply and demand statuses of RMB capital, so as to impact the offshore RMB exchange rate. Second, we should take inter-bank lending as the main channel for interest rate interaction. We should use intra-bank, inter-bank and bank-enterprise financing activities to enable offshore and onshore RMB capital to impact each other and produce an interest rate interaction effect. Third, we should take the currency swap conducted by central banks as the main channel for market liquidity management. We should encourage overseas central banks to set up RMB liquidity arrangements, increase market liquidity supply and guarantee systems and give play to liquidity adjustment. Fourth, we should take bond issuance as the main channel for interaction between offshore and onshore markets. We should take reference from the rules of international bond markets in New York, London and Eurozone to settle the taxation problems about cross-border securities transactions and sharpen the international competitiveness of RMB-denominated bonds. Fifth, we should take the stock connect and bond connect as important channels for cross-border RMB flow under the

capital account and use the above-mentioned institutional channels to impact the interest rate and foreign exchange rate differences between offshore and onshore RMB markets.

In order to facilitate RMB internationalization in the dual circulation pattern, we should also take the following measures. The first is to strengthen onshore financial market development, deepen market-based foreign exchange rate and interest rate reform and optimize the operation mechanism of the financial market. The second is to push forward opening up of the financial market, take control of the opening-up pace of the capital account, improve relevant supporting systems and use fintech measures to prevent and resolve potential risks in the new pattern. The third is to develop a policy-driven and market-guided RMB internationalization model and add digital nature to RMB internationalization. We should form overseas RMB foreign exchange markets of different size through direct investment and assistance and create necessary conditions for more enterprises and individuals to accept RMB. We should use the CIIE and FTZs to provide powerful e-commercial and digital trade platforms, and use third-party platforms to explore the application of digital currency in cross-border trade. We should push forward RMB pricing and settlement, add digital nature to RMB to use its use scenarios and enable RMB to become a local monetary anchor. The fourth is to handle the logical relationship between market-based RMB foreign exchange rate, flexibility and stability. We should draw lessons from past experience and not rigidly cling to the psychological foreign exchange rate threshold.

RMB Internationalization Milestones (2020)

Date	Event
January 6, 2020	The PBoC signed a bilateral domestic currency cooperation agreement with the Bank of the Lao P.D.R. to allow the direct use of domestic currencies in the settlement of transactions under all the open currency and capital accounts in both countries.
February 10, 2020	The PBoC and the Central Bank of Egypt renewed the bilateral currency swap agreement with a volume of 18 billion yuan/41 billion Egyptian pound.
February 11, 2020	The PBoC examined and approved the application of Mastercard NUCC to begin formal preparations to set up a domestic bankcard clearing institution in China.
February 13, 2020	The 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.
February 14, 2020	The Opinions on Further Accelerating the Development of Shanghai as an International Financial Center and Providing Financial Support for the Integrated Development of the Yangtze River Delta Region (Yinfa [2020] No.46)
February 14, 2020	The CSRC, the Ministry of Finance, the PBoC and the CBIRC jointly issued The Announcement on the Participation of Commercial Banks and Insurance Institutions in Treasury Bond Futures Transactions in China Financial Futures Exchange (CSRC Announcement [2020] No.12)
February 28, 2020	The Chinese treasury bond was officially included into J.P. Morgan's Government Bond Index-Emerging Markets.
March 5, 2020	Six departments including the PBoC and the NDRC jointly issued the Work Plan for Overall Supervision of Financial

	Infrastructure.
March 26, 2020	The PBoC issued 10 billion yuan worth of six-month central bank bills in HKSAR.
March 31, 2020	The State Council officially approved the Measures on Supporting the Opening Up and Development of the Whole Oil and Gas Industrial Chain in China (Zhejiang) Pilot Free Trade Zone.
April 16, 2020	The digital RMB was first used in Xiancheng District of Suzhou, and then received closed beta testing in Zhenshen, Xiongan, Chengdu and the future Winter Olympic Games scenarios.
April 16, 2020	The Agricultural Bank of China launched the Plan on Further Promoting RMB Internationalization.
May 7, 2020	The PBoC and the SAFE jointly issued the Regulations on Funds of Securities and Futures Investment by Foreign Institutional Investors
May 11, 2020	China Baowu Group, the largest steel group in China, announced the completion of the first RMB cross-border settlement through blockchain technology with Rio Tinto Group, with a total volume of over 100 million yuan.
May 14, 2020	Fitch Ratings was allowed to enter the Chinese credit rating market.
May 14, 2020	The 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.
May 20, 2020	The PBoC and the Central Bank of Lao P.D.R. signed the bilateral currency swap agreement with a volume of 6 billion yuan/7.6 trillion Lao kips.

May 27, 2020	The Bond Business Guidance for Foreign Government Institutions and International Development Institutions was released.
June 13, 2020	The PBoC and the CBIRC approved the application of American Express to commence operations as a bank card clearing organization.
June 18, 2020	Turkey first used the RMB funds under the bilateral currency swap agreement renewed by the Central Bank of Turkey and the PBoC in 2019.
June 23, 2020	The PBoC issued 10 billion yuan worth of six-month central bank bills in HKSAR.
June 29, 2020	The PBoC, the Hong Kong Monetary Authority and the Macau Monetary Authority released an announcement to carry out pilot programs of “cross-border wealth management scheme” in the Guangdong-Hong Kong-Macau Greater Bay Area.
July 19, 2020	The PBoC and the CSRC jointly issued the Announcement of PBoC and CSRC ([2020] No.7).
July 31, 2020	The PBoC and the Central Bank of Pakistan signed the revised bilateral currency swap agreement to expand the volume to 30 billion yuan/720 billion Pakistan rupees.
July 31, 2020	The PBoC and the Central Bank of Chile signed the revised bilateral currency swap agreement to expand the volume to 50 billion yuan/5.6 trillion Chilean pesos.
July 31, 2020	The PBoC and the Central Bank of Mongolia renewed the bilateral currency swap agreement with a volume of 15 billion yuan/6 trillion Mongolian tugrik.
August 13, 2020	The 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.
August 22, 2020	The PBoC and the Central Bank of New Zealand renewed the bilateral currency swap agreement with a volume of 25 billion yuan.
August 31, 2020	The PBoC published The Participation in International Benchmark Interest Rate Reforms and Improving China's Benchmark Interest Rate System white paper.
September 8, 2020	The work plan on deepening the development of a new round of comprehensive pilot programs for further opening up of service industry in Beijing and developing the integrated demonstration zone for further opening up of the service industry in China was formulated.
September 17, 2020	The PBoC and the Central Bank of Hungary signed the bilateral currency swap supplemental agreement with a volume of 40 billion yuan.
September 18, 2020	The Opinions Concerning Standardization of the Development of Supply Chain Financing and Supporting Stable Circulation and Optimization and Upgrade of Supply Chain and Industry Chains (Yinfa [2020] No.226) was issued.
September 21, 2020	The first Chinese bond ETF in Singapore, managed by asset management company CSOP was put in transaction.
September 23, 2020	The total volume of QDII investment reached 107.343 billion dollars.
September 24, 2020	The PBoC issued 10 billion yuan worth of six-month central bank bills in HKSAR.
September 25, 2020	FTSE Russell announced that the Chinese treasury bond would be included into its World Government Bond Index (WGBI).

September 30, 2020	RMB realized the highest quarterly appreciation rate of 3.71% since 2008.
September 30, 2020	Yi Gang, Governor of PBoC and Perry Warjiyo, Governor of the Bank of Indonesia signed the MoU for the Establishment of a Framework for Cooperation to Promote the Settlement of Current Account Transactions and Direct Investment in Local Currencies.
October 11, 2020	The General Office of the CPC Central Committee and the General Office of the State Council issued the Implementation Plan for the Pilot Comprehensive Reform of Building a Pilot Demonstration Zone of Socialism with Chinese Characteristics in Shenzhen (2020-2025).
October 12, 2020	The PBoC decided to lower the reserve requirement ratio for financial institutions when conducting some foreign exchange forwards trading from 20% to 0.
October 22, 2020	The PBoC and the Bank of Korea renewed the bilateral currency swap agreement to increase the volume from 360 billion yuan/64 trillion won to 400 billion yuan/70 trillion won, with a duration of five years.
November 12, 2020	The PBoC issued 10 billion yuan worth of three-month central bank bills and 15 billion yuan worth of one-year central bank bills in HKSAR.
November 15, 2020	Trade Ministers from ASEAN, China, Japan, Korea, Australia and New Zealand jointly signed the Regional Comprehensive Economic Partnership (RCEP)
November 25, 2020	The PBoC and the Hong Kong Monetary Authority renewed the currency swap agreement to increase the volume from 400 billion yuan/470 billion Hong Kong dollars to 500 billion

	yuan/590 billion Hong Kong dollars, with a duration of five years.
December 4, 2020	The SAFE approved to increase the quota under the QDIE pilot scheme in Shenzhen from 5 billion US dollars to 10 billion US dollars.
December 4, 2020	The SAFE approved to increase the quota under the QDLP pilot program in Shanghai by 5 billion US dollars, making to total volume 10 billion US dollars.
December 8, 2020	Shanghai Clearing House and Euroclear Bank jointly launched the Yulan Bond.
December 11, 2020	The PBoC and the SAFE lowered the macro-prudential adjustment parameter for cross-border financing of financial institutions from 1.25 to 1.
December 11, 2020	The PBoC, the CBIRC, the CSRC and the SAFE jointly issued the Roadmap for the Implementation of LEIs in China (Yinfa [2020] No.283)
December 15, 2020	The first WFOE PFM fund product subscribed by qualified foreign institutional investors through QFII/RQFII was launched in Shanghai.
December 18, 2020	The 5 th Meeting of the China-Vietnam Financial and Monetary Cooperation Work Group was held virtually.
December 21, 2020	The PBoC approved to establish an RMB international investment and loan fund in Beijing.
December 23, 2020	The PBoC issued 10 billion yuan worth of six-month central bank bills in HKSAR.
December 25, 2020	The Bond Business Guidance for Foreign Government Institutions and International Development Institutions (Trial) was formulated, and the Debt Financing Instrument Business Guidance for Foreign Non-financial Enterprises (2020 version) was revised.

December 28, 2020	Business related to the QFII registration and settlement system reform in Shanghai Stock Market and Shenzhen Stock Market was officially launched, and QFIIs were allowed to participate in securities margin trading from December 29.
December 29, 2020	Guotai Junan Securities assisted large foreign institutional investors to complete the first QFII securities margin trading deal in the A-share market.
December 30, 2020	China and EU leaders jointly announced that the negotiation on the China-EU Comprehensive Investment Agreement was completed on time.



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