



## U.S.-China Economic and Security Review Commission

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### REPORT RELEASED: CHINA'S EFFORTS TO EXPAND INTERNATIONAL USE OF RENMINBI

Washington, D.C. - Today, the U.S.-China Economic and Security Review Commission released a report prepared for the Commission by Eswar Prasad, Tolani Senior Professor of Trade Policy at Cornell University, New Century Chair in International Trade and Economics at Brookings, and Research Associate at the National Bureau of Economic Research. The report, entitled *China's Efforts to Expand the International Use of the Renminbi*, examines the Chinese government's actions to promote the use of its currency, the renminbi (RMB), in the global monetary system as a payment currency for cross-border trade and financial transactions, a vehicle currency for foreign trade and international capital transactions, and a reserve currency.

According to the report, the RMB is gradually becoming a reserve currency in practice and principle based on five criteria (economic size, macroeconomic policies, openness of the capital account, flexible exchange rate, and financial market development). This transformation is demonstrated by the recent inclusion of the RMB in the International Monetary Fund's Special Drawing Rights, the limited but growing number of central banks holding RMB-denominated assets as part of their foreign exchange reserve portfolios, and 34 currency swap arrangements.

The selective and calibrated approach adopted by China's government has effectively promoted the RMB's international presence while avoiding the deleterious risks of complete liberalization. As the report highlights, the modest steps already taken have gained traction, though much work remains to be done. For example, the RMB became the fifth-most important payment currency, but still accounts for less than 3 percent of worldwide payments for cross-border trade and financial transactions. The sequencing of capital account opening and financial market development remain two critical challenges to further internationalization of the RMB and the sustainability of China's economic growth.

According to the report, the rising prominence of the RMB will, over time, diminish the dollar's role in denominating international trade transactions and settling cross-border financial transactions. While this development could affect the financial clout of the United States, the depth, breadth, and liquidity of U.S. financial markets will ensure the dollar's continued status as a dominant global reserve currency. The report also noted that "a broader set of political, legal, and institutional reforms are required for the RMB to become a safe-haven currency. In the absence of these broader reforms, the rise of the RMB will erode but not seriously challenge the dollar's status as the dominant global reserve currency." Read the full report [here](#).

*DISCLAIMER: This report was prepared at the request of the U.S.-China Economic and Security Review Commission to support its deliberations. Posting of the report to the Commission's website is intended to promote greater public understanding of the issues addressed by the Commission in its ongoing assessment of U.S.-China economic relations and their implications for U.S. security, as mandated by Public Law 106-398 and Public Law 108-7. However, it does not necessarily imply an endorsement by the Commission or any individual Commissioner of the views of conclusions expressed in this commissioned research report.*