

Press Articles

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Alicia García-Herrero
*Emerging Markets Head
Economist BBVA Research*

What China was missing to be the top world power: Internationalizing the Renminbi is still to take place

Nobody would have thought just a few years ago that China would become the world's second largest economy in size in such a short space of time as it has just achieved after exceeding the GDP of Japan. However, the Chinese economic giant, built with manufactured exports and investment in physical capital, remains a dwarf in financial terms. In fact, the banking system, although large, is overprotected and the capital account remains closed. The consequence of all this is that the Renminbi is still not managing to develop as an internationally-used currency. Aware of the situation and the enormous benefits of having a reserve currency, the Chinese authorities have decided to seize the window of opportunity the global crisis is opening for them, considering the weakness of the great powers and their currencies. Therefore, they have begun to internationalize the use of the Renminbi. As on other occasions, Chinese authorities are using a laboratory to test the success of this initiative, in particular Hong Kong. Among all the functions that an internationally-used currency can develop, the Chinese authorities are beginning to open up two: firstly, payment of international trade in Renminbi and the possibility of depositing those payments in the Hong Kong banking system; secondly, non-local corporations are issuing Renminbi-denominated bonds. Although both projects for internationalizing the Renminbi began very slowly, recent months have proved much more positive in terms of growth of deposits and issuing Renminbi-denominated bonds. The change in attitude can be linked to the renewed expectations of appreciation since Beijing announced a change in the Renminbi exchange regime this summer. The reason may also be in the high volatility and increasing uncertainty about the future value of the two major reserve currencies in the world: the dollar and, to a lesser extent, the euro. Either way, it is certainly true that the Renminbi has started its road to internationalization with no need to soften exchange controls as China has a financial center like Hong Kong. The experiment will be successful as long as it progress slowly but surely, so Hong Kong can prevent asset bubbles and excessive liquidity in its banking system, and China can control the pressure of the foreign capital waiting in Hong Kong to enter China.