<table>
<thead>
<tr>
<th>項目</th>
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<tr>
<td>题目</td>
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RMB Internationalization Roadmap and 
China Regional Integration Strategy

Jun Xue (薛军) 

Abstract

China is constructing RMB offshore center and promoting RMB internationalization from regional integration. To do so, China tries to make a globalization strategy that is advantageous for themselves. RMB internationalization roadmap is based on one main line and two dimensions. The main line is opening capital account and RMB exchange rate to float. The two dimensions are offshore market, regional integration and the Chinese version of globalization.

Keywords: RMB internationalization, China regional integration strategy, capital account openness

1 ASEAN + China — deeper economic connection

Trade and investment

ASEAN + China — FTA started from 2003. Establishments of free trade area affect not only the circumstances of trade inside countries, but also the outside area and all over the world.

ASEAN is the important strategic area for Chinese investment, trading and RMB regionalization. Even though China and ASEAN are included in the supply chain of same Asian factory, complementarity of China and ASEAN trade is still larger than competitiveness.
In 中国, China and ASEAN trade is No.1 and No.2, total amount accounts for 20% of Chinese total amount of trade. The speed of growth is very fast for a decade, it is faster than Japan, USA and EU.

From January to August in 中国, RMB trade settlement of China and

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**Figure 1** Percentage and stock of Chinese ODI from 中国 to 东南亚 in ASEAN

![Diagram showing percentage and stock of Chinese ODI from China to ASEAN](chart.png)

**Source**: UNCTAD, *World Investment Report*

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**Table 1** Chinese ODI to each economic area in 中国

<table>
<thead>
<tr>
<th>Economic area</th>
<th>Total amount</th>
<th>Flow Compared from the last year [%]</th>
<th>Ratio</th>
<th>Amount of money</th>
<th>Stock Ratio [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>ASEAN</td>
<td></td>
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<tr>
<td>America</td>
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<tr>
<td>Australia</td>
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<tr>
<td>Russia</td>
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<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source**: Statistical Bulletin of China’s Outward Foreign Direct Investment
ASEAN accounts for 35% of total amount, whole of the world does 22%. We can assume that the value of ASEAN is very high when we take into account the extraordinary amount of Hong Kong.

In investment, ODI from China to ASEAN, flow is 23% of the whole, stock is 14% of that, and it is the third largest amount next to Hong Kong and EU. Parts of ODI went to ASEAN via Hong Kong and Cayman islands. Therefore, when we take into account this, maybe this is much more. ODI of China in 14 accounts for 11% of the whole world of it, Cayman Islands is 9% and ODI of China to developing countries is 14%. 

**Chinese new strategy to ASEAN: constructing the 21st Century Maritime Silk Road**

For both geopolitics and economic development, ASEAN is important for China. In 1595, China and ASEAN established ASEAN + 1 free trade area. Because of the size of population, 6.4 billion, it became the biggest world free trade area.

The recent rise of One Belt and One Road strategy has made Chinese regional integration strategy become deeper. Because marine Silk Road includes ASEAN, it makes deeper connection to ASEAN. One Belt and One Road strategy refers to the Silk Road Economic Belt and the 21st Century Maritime Silk Road.

The reason why China raised such a strategy is that they want to use historical and geopolitical advantages sufficiently. China trades on land, sea, and Silk Road. Therefore, China has basis of trade still now. Moreover, there are big network for ethnic Chinese and overseas Chinese in ASEAN. It is estimated it helps development of strategy very much.
Moreover, China has a construction plan of train through ASEAN. Look at figure 1, there are three routes.

In Bangkok, Thai, Asia-Europe meeting (ASEM) was held in November 2000. In the meeting, Malaysian Prime minister Mahathir suggested to Trans-Asian Railway. This is the railroad system which connects Asia to Europe in the same manner as Trans-Siberian railroad. The train leaves Singapore and via Kuala Lumpur in Malaysia, Bangkok in Thai, Yangon in Myanmar, Kunming, Beijing, Dandong in China, Pyongyang in North Korea, Seoul in Korea and arrives Busan in Korea.

ASEM also has plans like Silk Road railway from Kunming from Istanbul in Turkish and Trans-South Asia railway from Yangon via Calcutta and New Delhi in India to Istanbul.

It must spend many days and months to construct. But some schedules from China to ASEAN were already presented and construction is partly started. In the future, maybe, it will accompanied by the export of high-speed railway from China and Japan. Figure 2 shows it has three ways.
2. Chinese Version globalization strategies seen from integration strategy of Asian Pacific area

One Belt and One Road and Asian infrastructure investment bank AIIB

About One Belt and One Road strategy

When Chinese President Xi Jinping visited Central Asia and Southeast Asia in September and October, he raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road hereinafter referred to as the Belt and Road, which have attracted close attention from all over the world. At the China-ASEAN Expo in , Chinese Premier Li Keqiang emphasized the need to build the Maritime Silk
Road oriented toward ASEAN, and to create strategic propellers for hinterland development. This is one of the free trade agreement systems for construction of partnership in the field of infrastructure and culture communication.

Both of construction of the Silk Road Economic Belt and the 21st Century Maritime Silk Road can be regarded as the Chinese second strategy of openness to the international community, next to the Chinese economic reform in 1978.

One Belt and One Road strategy can be considered not to fight the TPP leaded by USA, but to prepare for the next to join the threshold higher TPP.

The Maritime Silk Road emphasize the strengthening of economic cooperation, especially with ASEAN. China wants to make the ASEAN + CHINA connection deeper, using the Maritime Silk Road. In addition, China tries to show the leadership construction of RCEP, based on the close economic connection like ASEAN + 1, ASEAN + 3

About Asia Infrastructure Investment Bank

When Chinese President Xi Jinping and Premier Li Keqiang made a round of visits to South Asia in October 2013, China suggested the establishment of Asian Infrastructure Investment Bank which supports through infrastructure of Asian countries.

On July 2014, founder’s agreement signing ceremony of AIIB was held and countries, found members, came together. This started to move to found within the year. The capital for establishment of the bank is increased to billion dollars, compared with the first plan of billion dollars. In addition, China invested billion dollars and has % of voting right.
Japan decided not to join with USA, because of anxiety that Chinese effects reflect to the standard of financing or system.

In the future, they are planning to establish its headquarter in Beijing and open by the end of 2015.

There are three purposes of establishing AIIB.

1. Contribution of One Belt and One Road strategy.
2. Promote the first step for regionalization of RMB for internationalization.
3. Complement Asian Development Bank which is said to be the compete rival. Each percentage of money for investment to ADB from the USA, Japan and China are 30%, 20% and 10% . The capital of the bank is 100 billion US dollars.

Even though some people regarded establishment of new bank as the challenge to the international financial system that USA leads, Asian countries, including ASEAN accept this. The reason is that a large amount of money is needed to improve the infrastructure of Asian countries, but ADB cannot meet their needs.

World Bank raised the investment rate to China from 30% to 40% in 2013. Even though China has the second largest GDP in the world, Japan invested 40%, USA invested 40%.

Both USA and Japan invested about 40% in ADB and USA refuses more investment in ADB and other countries. Moreover, USA has an experience that USA and IMF opposed the plan of Asian monetary fund, suggested by Japan.

About establishment of Silk Road Fund

On November eighth in 2014, when APEC Beijing is held, President Xi
declared establishment. The capital is ¥2 trillion dollars.

Some reports say that this is Chinese Marshall Plan. I think this is not right. The reason is that the main purpose of Silk Road Fund is regional cooperation and development and this is different from the Marshall Plan because its purpose is support.

Chinese regional integration strategies in Asian pacific area is the preparation of joining TPP

President Xi used the keyword many times that Asian pacific area regional integration.

This is based on One Belt and One Road strategy and promote three regional integration strategies in Asian pacific area.

1) To promote area integration of China, Japan, Korea and Russia. This is north east area.

2) Mainly, construct China and Pakistan corridor, Bangladesh-China-India corridor and China-Singapore corridor, based on free trade area of China + ASEAN. This is south area.

3) Area integration in China and central Asia, they aim construction the China-Iran-Turkish corridor and Eurasia Land Bridge, includes Kazakhstan, Turkmenistan, Uzbekistan and Tajikistan. This is west area. There are two steps to promote.

1) Making better infrastructure includes traffic, electricity and communication. To do this, establishing AIIB and Silk Road Fund is needed.

2) Make it larger both of their economics, trade and communication and promoting Chinese capital extending includes financial business.

China and Asian developing countries are challenging TPP and TIPP,
lead by USA. TPP lead by USA is not only for extending their own economic model, but also the restriction for China.

In long term, China has to regard joining these new agreements positively as the chance for China. But for Asian countries, including China, this is difficult in short term. China will join TPP. They may promote RCEP and FTAAP in short term strategy at the present time.

Sooner or later, I have the point of view that USA will accept China’s joining to TPP.

Even though USA has an ABC -Anyone but China- strategy a little, but if there are no emerging economies, especially the joining of China, there would be no substantial meaning for TPP.

According to Figure 4, world investment report in which compared the world direct investment and from to the speed of growth area integration mainly joined developing countries are much higher than the area integration mainly joined developed countries, like TPP. About TPP, even though the number of is less than the number of average of from to . This can be because the growth of developing

Figure 4  World direct investment compared and from , seen from area integration

<table>
<thead>
<tr>
<th>Regional/inter-regional groups</th>
<th>Average 2005–2007 FDI Inflows ($ billion)</th>
<th>Share in world (%)</th>
<th>2013 FDI Inflows ($ billion)</th>
<th>Share in world (%)</th>
<th>Change in share (percentage point)</th>
</tr>
</thead>
<tbody>
<tr>
<td>G-20</td>
<td>878</td>
<td>59%</td>
<td>701</td>
<td>54%</td>
<td>-5</td>
</tr>
<tr>
<td>APEC</td>
<td>560</td>
<td>37%</td>
<td>799</td>
<td>54%</td>
<td>17</td>
</tr>
<tr>
<td>TPP</td>
<td>363</td>
<td>24%</td>
<td>458</td>
<td>32%</td>
<td>8</td>
</tr>
<tr>
<td>TTIP</td>
<td>838</td>
<td>56%</td>
<td>434</td>
<td>30%</td>
<td>-26</td>
</tr>
<tr>
<td>RCEP</td>
<td>195</td>
<td>13%</td>
<td>343</td>
<td>24%</td>
<td>11</td>
</tr>
<tr>
<td>BRICS</td>
<td>157</td>
<td>11%</td>
<td>304</td>
<td>21%</td>
<td>10</td>
</tr>
<tr>
<td>NAFTA</td>
<td>279</td>
<td>19%</td>
<td>286</td>
<td>20%</td>
<td>1</td>
</tr>
<tr>
<td>ASEAN</td>
<td>65</td>
<td>4%</td>
<td>125</td>
<td>6%</td>
<td>5</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>31</td>
<td>2%</td>
<td>45</td>
<td>6%</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: UNCTAD, World Investment Report
market in TPP offset the speed of growth of USA.

Before the negotiation of TPP, China continues negotiation with RCEP and FTAAP APEC. But both of them are regarded negatively by USA and India.

It is expected because of the existence of TPP, it has the needs of FTAAP of US less and about the FTAAP in the future, it will incorporate the part of Asian trade to the TPP. When the situation becomes like this, it will be important meaning of deeper connection for China and USA in FTAAP.

RCEP, Regional Comprehensive Economic Partnership is suggested by ASEAN in November. This is the idea of large comprehensive economic partnership and six countries, Japan, China, Korea, India, Australia, and New Zealand are putting together the five FTA that ASEAN has. After that, the discussion by sixteen countries was held and the negotiation is raised formally at the ASEAN top-level meeting in November. When RCEP becomes real, the large economic area will appear. This includes billion people, the half of the world, trillion dollars of GDP, about of it in the world and trillion dollars of trade amount, about of it in the world.

Final goal and present situation of Chinese version of globalization strategy

In area integration strategy, it is not the last goal for China to join the TPP.

According to Shao Yu, Orient Securities Chief Economist, The last goal of China is constructing new model of trading the benefit with foreign countries. In addition, creating the new systems that are benefit for themselves in international trade, investment and circuit of money has important
meaning in the global strategy. 2) Through the trading, China can have deep economic connection with other countries and can invest or export overcapacity and capital too. 3) Moreover, China can incorporate the internationalization strategy of RMB in this process. Finally, Chinese economic effect will be more through the internationalization of RMB.

When Asia pacific area regional integration strategy and One Belt and One Road strategy that will be held in the future affect each other, it will help Chinese version globalization strategy.

A commentator, Shi Qipin, thinks that Chinese version globalization consists of three stages, 1) expansion of each FTA, 2) making deeper interrelationship on land and marine, 3) Setting new standards includes internationalization of RMB.

But, present situation of China is on the first stage of this strategy. Especially, China is scarce of knowhow and persons of talent in the international financial field. USA, on the other hand, can lead international policies because of the member of G, IMF, the World Bank, and regional development organization, United Nations, BIS and IOSCO. In addition, United States Department of the Treasury can usually appoint executive director, president and Vice-president of IMF and World Bank. China, on the other hand, has not power in the international organizations. See Table 2

At present, China against the United States by military means is unthinkable. In the economic sphere, Chinese government knows that there is a big gap in USA and China. Constructing cooperate + competition connection is only the way that China can do for win-win connection with USA.
### 3. Development view of internationalization of RMB roadmap

In summary, RMB internationalization is promoted based on one main line and two dimensions.
Main line is liberalization of capital account and freely float exchange rate.

The liberalization of capital account should be started from the release of RMB and then other currencies like dollars follow. The liberalization of capital is the biggest obstacle in RMB internationalization.

In order to achieve this main line, China needs to make freely flexible exchange rate through the market-oriented reform of RMB exchange rate.

The means of two dimensions

One is to make larger and deeper through the market construction of RMB offshore market such as currency swap, direct dealing, and clearing banks and so on.

The other is to promote the use of RMB in its neighboring countries, in Asia, in BRICs and other areas through China regional integration strategy among globalization such as trade, investment, ODA and so on.

I show in Figure 5 that development view of RMB internationalization roadmap. The main line is opening capital account and floating RMB exchange rate. The two dimensions are offshore market, regional integration, and the Chinese version of globalization.

This type cannot be seen from another example of the first step of internationalization of currency.

According to the Chinese strategies of regional integration that targets the world, it is expected that RMB internationalization will be promoted like trade, investment and ODA in the future.

Moreover, it also can be expected that many varieties of RMB will appear. For example, Trade Yuan, BRICS Yuan, Marshall Yuan, Commodity Yuan,
Oil Yuan, Euro Offshore Yuan, Geopolitical security Yuan and so on.

At present, the weight of current stock in the world is dollar, Euro and RMB less than 1%. The chief economist of People’s Bank of China, Ma Jun 马骏 expects in the monetary markets that first, weight of current stock of RMB in the world will grow in the coming years or so. This is about from 2% to 3% substitutes of Euro. In addition, he expects that it substitutes dollars from 4% to 5%. It is expected that the process that substitution of dollars will be high speed and weight of RMB will be 6% or more. This expectation is the most authoritative and surprised from the contents.
4. Stance of Chinese government and problems of RMB internationalization

Stance of Chinese government

Chinese government regards the openness of capital accounts as too fast. But this aspect is changed very much and approve of this opinion is more since 2004. In addition, they are speeding up both strategic plan and actual promoting.

According to the joint research of Chinese government and World Bank Institute, they expected that capital liberalization will be real until 2012, but from the pace of present, it will be real in three or five years.

### Table 3  Strategies and specific development ways that openness of capital account of Chinese government

<table>
<thead>
<tr>
<th></th>
<th>Until 2004</th>
<th>Since 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic ideas</strong></td>
<td>None or not important</td>
<td>Began to be thought seriously</td>
</tr>
<tr>
<td></td>
<td>Partly seen</td>
<td>Began to carried out</td>
</tr>
<tr>
<td></td>
<td>Not integrated</td>
<td>Even though there is no total plan, but oppositions are less and less</td>
</tr>
<tr>
<td></td>
<td>Much opposition in a system</td>
<td></td>
</tr>
<tr>
<td><strong>Way of promote</strong></td>
<td>Gradual</td>
<td>Gradual but faster</td>
</tr>
<tr>
<td></td>
<td>Main is trade, investment, ODA</td>
<td>Accelerating constructing Chinese offshore market</td>
</tr>
<tr>
<td></td>
<td></td>
<td>From the promotion of area integration, it develops all area</td>
</tr>
<tr>
<td><strong>RMB Market</strong></td>
<td>Strengthen offshore markets, the main is Hong Kong</td>
<td>□ Constructing offshore network</td>
</tr>
<tr>
<td></td>
<td>□ Onshore markets of Shanghai become financial center. It can head for domestic offshore market □</td>
<td></td>
</tr>
</tbody>
</table>
Make use of Hong Kong and Shanghai

This is another stance of Chinese government. Hong Kong is the special place for China. China uses geological advantage of Hong Kong and Shanghai to promote RMB internationalization.

Table 4  Tests of capital liberalization in Hong Kong, Shanghai and so on

<table>
<thead>
<tr>
<th>Classification</th>
<th>Shanghai model</th>
<th>Qianhai model</th>
<th>Hong Kong</th>
<th>China</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>Opened from</td>
<td>Opened from</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Whole</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Capital Account</td>
<td>RMB</td>
<td>Testing in</td>
<td>Testing in</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hong Kong</td>
<td>Hong Kong</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Only RMB</td>
<td>□</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RMB and foreign</td>
<td>□</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>currency</td>
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</tbody>
</table>

Note: The order of openness condition is □ □ □ □ .
When foreign people trade foreign capital with China, they think they have to go through Hong Kong. This is also the way to hedge the risk of RMB internationalization, liberalization of capital to a certain degree.

Making RMB offshore financial center in Shanghai is a part of establishment of international financial center in Shanghai for China.

Recently, China seems to have an idea that building the offshore financial center, testing from Shanghai free trade area as the capital account open testing area in free trade area in the future.

제목 Problems of RMB

First is overestimation of RMB.

Adjusted amount of Yuan is 2% of the world until April and most of them are a little amount between the mainland and Hong Kong. Hong Kong is 2% in September.

In the trade, seen from the point of view of payment currency in , Yuan vs dollars is 2% vs 2%. Dollars are about ten times as large as Yuan. In addition, in the Chinese , about 2% is settled in Hong Kong. This means that RMB settlement amount is yet small, except Hong Kong.

In the international bond market, the ratio of RMB bond is only 2% in the middle of 2% and 2% of them is possessed by firms in Mainland and Hong Kong. Other countries possessed RMB bond in that season less than 2%.

Seen from the foreign currency reserve ratio of the world, US dollars are 2%, Euro is 2%, and RMB is 2%. The scale of RMB is a little.

Next, RMB internationalization is difficult. June, FT expressed difficulties in the future as the three mountains.

1 Seen from the price of Yuan, the mountain that marketization of in-
terest and exchange rate, liberalization of interest and flexible exchange rate system

2 Seen from the liquidity of Yuan, the mountain that liberalizes perfectly of capital account

3 Seen from the depth of Yuan market, the mountain that the RMB bond market is very small

After this, the faculty of government will be tested. From the point of view of the trilemma of currency, Mundell-Fleming Model, the dispute continues. Free capital flow, independence of monetary policy, fixed exchange rate system are independent of each other and we cannot realize all of three goals

Chinese government realized the liberalization of trade in ○○○○. In those days, Chinese government declared positively ○ we realize the openness of capital perfectly in ○years ○, but they changed their attitude because of the outbreak of Asian financial crisis ○

In reality, effects of financial crisis to Chinese economy which occurred from Lehman shock was prevented to a certain degree. Even now, China’s domestic opposition is still strong ○

<table>
<thead>
<tr>
<th>Table 5  Trilemma of currency and expectation of China in three or five years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Japan, USA etc...</td>
</tr>
<tr>
<td>Euro etc...</td>
</tr>
<tr>
<td>○○ years ago China</td>
</tr>
<tr>
<td>Current China</td>
</tr>
<tr>
<td>Expectation of China in ○ or ○ years</td>
</tr>
</tbody>
</table>

Note ○ The order of openness condition is ○ ○ ○ ○ ○
Finally, what I want to emphasize is there is a political meaning of liberalization for China, a super control.

For China, after this, liberalization of the capital account means not only economic reform, but also the politic reform.

In internationalization of RMB, it is inevitable to fully open capital account of RMB and RMB free floating. But, if China realized perfect capital liberalization, it cannot deny the possibility of confusion of Chinese economy, society and politics.

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