

# A Snapshot of Renminbi Internationalization Trends Under One Belt One Road Initiative

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## Introduction

This article was prepared to review recent regulatory and policy developments related to expansion of the Chinese renminbi (yuan) which may be of particular interest to investors and fund sponsors considering investing along the revitalized ancient trade routes known as the “silk roads,” which includes both land routes and sea routes. Below is a summary of recent developments and a review of two specific transactions under China’s “One Belt One Road” Initiative.

## Developments

In September 2013 China’s President Xi Jinping announced the “One Belt One Road Initiative” (OBOR)<sup>1</sup>. Under OBOR in

2014 the Silk Road Fund was established<sup>2</sup> followed in 2015 by the Asian Infrastructure Investment Bank (AIIB)<sup>3</sup>. Both are intended to play significant roles in financing infrastructure projects in the sixty-eight countries<sup>4</sup> along the revitalized silk roads<sup>5</sup>. OBOR policy and investments are intended to contribute to increasing Chinese overseas investments and also to influence the selection of currency used in those transactions. In October 2016, the International Monetary Fund (IMF) officially added the renminbi to the basket of currencies<sup>6</sup> that make up the Special Drawing Right (SDR)<sup>7</sup>. In May 2017, during the Belt and Road International Cooperation Forum held in Beijing, President Xi announced that in order to provide financial support to OBOR, China would inject additional

RMB100 billion capital into Silk Road Fund and would encourage Chinese financial institutions to establish RMB denominated outbound investment funds with a total value of RMB 300 billion. In July 2017 in furtherance of acceptance of the renminbi among other purposes, the China Development Bank entered into two renminbi denominated transactions with the Russian Direct Investment Fund announcing the establishment of an RMB68 billion investment co-operation fund and an RMB6 billion loan to support a fund for innovation. Both transactions are also intended to support expansion in infrastructure and encourage private investment and innovation across the Russian-Chinese border consistent with OBOR policy<sup>8</sup>.

1. <https://eng.yidaiyilu.gov.cn/qwyw/hyygd/1849.htm>

2. <http://www.silkroadfund.com.cn/enweb/23773/index.html>

3. [https://www.aiib.org/en/news-events/news/2016/20160116\\_001.html](https://www.aiib.org/en/news-events/news/2016/20160116_001.html)

4. [https://eng.yidaiyilu.gov.cn/info/List.jsp?cat\\_id=10076&cur\\_page=1](https://eng.yidaiyilu.gov.cn/info/List.jsp?cat_id=10076&cur_page=1)

5. The Ancient Silk Road is an ancient network of trade routes which connects the east and west of the Eurasia continent through both land and sea. <http://en.unesco.org/silkroad/about-silk-road>

6. <http://www.imf.org/en/News/Articles/2016/09/29/AM16-NA093016IMF-Adds-Chinese-Renminbi-to-Special-Drawing-Rights-Basket>

7. The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries’ official reserves. As of March 2016, 204.1 billion SDRs (equivalent to about \$285 billion) had been created and allocated to members. SDRs can be exchanged for freely usable currencies. The value of the SDR is based on a basket of five major currencies—the U.S. dollar, euro, the Chinese renminbi (RENMINBI), the Japanese yen, and pound sterling—as of October 1, 2016. <http://www.imf.org/external/np/exr/facts/sdr.htm>

8. <https://www.rt.com/business/395256-russia-china-investment-fund/>

## A Look at Two Recent Cases

### 1. Indonesia and ASEAN

In 2014, Indonesia received US\$800 million in foreign direct investment (FDI) from China<sup>9</sup>. By 2016 the amount of Chinese FDI into Indonesia increased to US\$2.66 billion<sup>10</sup> and China advanced from the eighth to the third largest investor in Indonesia. By June 2017 AIIB had approved three projects in Indonesia<sup>11</sup> under which US\$441.5 million of loans have been issued<sup>12</sup>. This is likely to have some influence on receptivity of the renminbi for investors who can use the currency. For example, PT Krakatau Steel, Tbk (KS), the largest state-owned steel enterprise in Indonesia, imports from China five to six million tons of cold rolled steel annually as raw material. The average price of the cold rolled steel is US\$260 per ton, and the total amount of these transactions generally exceeds US\$1.3 million per year. According to an individual familiar with the matter, in 2016, KS began accepting renminbi payments instead of US dollars. During the 2017 Boao Forum for Asia (BFA), Mr. Thomas Trikasih Lembong, Indonesia's Trade Minister, recognized the potential broader use of renminbi and said "we want to push harder for a broader use of Chinese renminbi in the region"<sup>13</sup>.

Other policies of the Indonesian government may also support receptivity to renminbi denominated transactions within Indonesian projects. For example, Indonesia's government intends to decrease the

cost of transportation by conducting the "Sea Highway" Program, prioritized under President Jokowi Widodo's administration, the "Nawa Cita" program<sup>14</sup>. The "Sea Highway" program involves the construction of a large number of infrastructure projects, which appear to be a fit with China's OBOR initiative to promote overseas infrastructure investments. Indonesia's signal of receptivity to the renminbi may make Indonesia attractive to investments from China, whether through policy or private entities.

In addition, the depreciation of the Indonesian rupiah against the US dollar may act as an additional motivation for Indonesia to seek other currencies to use for specific cross-border trade in the region. Indonesian President Widodo said "the rupiah versus US dollar exchange rate will increasingly fall out of tune with the real economic fundamentals of the Indonesian economy"<sup>15</sup>. The 1997 Asian financial crisis provided further caution to underscore the value to Indonesia of diversifying trading currencies. Again, since 2015, the exchange rate of the rupiah against the US dollar has fallen by 6%.<sup>16</sup> In 2016, 4% of FDI into Indonesia came from the US, while China contributed more than 9% FDI and was the third largest foreign direct investor in Indonesia<sup>17</sup>. The use of the renminbi mitigates against the resulting high cost generated by foreign exchange purchase between the rupiah and the US dollar in trade and gains from the perception that using the renminbi also helps Indonesian government conserve US dollar reserves.

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Given these influences, there are also increasing mechanisms available in Indonesia to make it possible to settle transactions in renminbi. For example, there is an increasing range of renminbi products and services, including cross-border renminbi trade settlement, renminbi deposits and loan facilities, renminbi remittances, renminbi cash exchange, global market renminbi products and renminbi banknotes available in Indonesia. Zhang Min, Branch Manager, said the Bank of China (BOC) Jakarta branch noted, "For example, the Bank of China has brought renminbi banknotes amounting to 2.7 billion yuan to the Indonesian market. In the first half of 2016, our branch's cross-border renminbi clearing amounted to RMB129.77 billion, up 387 percent from the same period in 2015."<sup>18</sup>

In addition, the Association of Southeast Asian Nations (ASEAN) members appear to have a similarly increasing interest in using the renminbi when reasonable to do so.

9. <https://www.indonesia-investments.com/upload/documents/BKPM-Investment-Realization-2014-Indonesia-Investments.pdf> Page 20

10. [http://www2.bkpm.go.id/images/uploads/file\\_siaran\\_pers/Bahan\\_Paparan\\_-\\_Eng\\_-\\_TW\\_IV\\_2016-250117\\_FINAL.pdf](http://www2.bkpm.go.id/images/uploads/file_siaran_pers/Bahan_Paparan_-_Eng_-_TW_IV_2016-250117_FINAL.pdf) Page 20

11. <https://www.aiib.org/en/projects/approved/index.html>

12. [https://www.aiib.org/en/projects/approved/2016/\\_download/indonesia/document/approved\\_project\\_document\\_national\\_slum\\_upgrading.pdf](https://www.aiib.org/en/projects/approved/2016/_download/indonesia/document/approved_project_document_national_slum_upgrading.pdf) Page 5; [https://www.aiib.org/en/projects/approved/2017/\\_download/indonesia/document/project-document\\_Indonesia\\_Regional\\_Infrastructure\\_Development\\_Fund.pdf](https://www.aiib.org/en/projects/approved/2017/_download/indonesia/document/project-document_Indonesia_Regional_Infrastructure_Development_Fund.pdf) Page 6; [https://www.aiib.org/en/projects/approved/2017/\\_download/indonesia/document/indonesia-dam-operation-document.pdf](https://www.aiib.org/en/projects/approved/2017/_download/indonesia/document/indonesia-dam-operation-document.pdf) page 5

13. <http://webcache.googleusercontent.com/search?q=cache:j67vC6c7AL4J:www.bernama.com/bernama/v8/bu/newsbusiness.php%3Fid%3D1164437+%cd=1&hl=en&ct=clnk&gl=us>

14. On 20 October 2014, Joko "Jokowi" Widodo was inaugurated as the seventh president of Indonesia. The new president came to power with a national development agenda called "Nawa Cita", consisting of nine development priorities, among which the seventh is promoting economic independence by developing domestic strategic sectors including transportation. <http://www.id.undp.org/content/dam/indonesia/2015/doc/publication/ConvFinal-En.pdf> Page 2

15. [http://www.indonesia-investments.com/zh\\_cn/finance/financial-columns/indonesian-president-widodo-focus-less-on-dollar-as-benchmark/item7421](http://www.indonesia-investments.com/zh_cn/finance/financial-columns/indonesian-president-widodo-focus-less-on-dollar-as-benchmark/item7421)

16. <https://www.bloomberg.com/quote/USDIDR:CUR>

17. [http://www2.bkpm.go.id/images/uploads/file\\_siaran\\_pers/Bahan\\_Paparan\\_-\\_Eng\\_-\\_TW\\_IV\\_2016-250117\\_FINAL.pdf](http://www2.bkpm.go.id/images/uploads/file_siaran_pers/Bahan_Paparan_-_Eng_-_TW_IV_2016-250117_FINAL.pdf) Page 20

18. <http://www.thejakartapost.com/news/2016/09/22/bank-of-china-ready-to-use-rmb-in-indonesia.html>

“ The combination of policy receptivity, utility of the currency, practical mechanisms and increasing experience with the renminbi may accelerate the currency use along the ancient silk road.

For example, in the first seven months of 2015, the cross-border usage of the renminbi by ASEAN members exceeds 4.7 billion yuan, and accounted for 11% of all China's cross-border settlements with ASEAN<sup>19</sup>. In addition, according to the Society for Worldwide Interbank Financial Telecommunications (SWIFT), the usage of the renminbi for trade settlements between Malaysia and China/Hong Kong increased by 68% in 2016 over usage for trade settlements in 2015, and renminbi currency in the region ranked second only to the US dollar, and ahead of the local currency Malaysian ringgit<sup>20</sup>.

The combination of policy receptivity, utility of the currency, practical mechanisms and increasing experience with the renminbi may accelerate the currency's use along the ancient silk road.

## 2. Pakistan and Some Challenges

However, policy and regulatory challenges to the near and medium term utility of the renminbi as a trading, investment and reserve currency remain as countries along the modern Silk Road are challenged by devaluation and their currency reserve policies.

For example, although in 2015, the Silk Road Fund announced its first investment in Pakistan Karot Hydropower Station<sup>21</sup>, Pakistan appears slower to embrace the renminbi. Pakistan has adopted strict capital control to preserve US dollar reserves required to meet annually its obligations to the IMF

and make annual payments. To achieve this Pakistan requires that no more than 25% of the payment per transaction may be made in US dollars, and the balance must be paid in local currency, the Pakistani rupee (PKR). The risk associated with any depreciation of the PKR is also ever-present<sup>22</sup>.

Anticipating that such policies may shift over time, however, the Chinese government has taken a number of actions to continue to enhance the attractiveness of the renminbi.

## Easing Access to the Renminbi

As of June 2017, the Chinese central bank, the People's Bank of China (PBOC), has designated 23 official renminbi clearing and settlement banks around the world<sup>23</sup>. These banks are intended to boost the development of offshore renminbi markets. For example, Hong Kong, the largest renminbi clearing center, holds large renminbi reserves which are not subject to quotas imposed by the State Administration of Foreign Exchange (SAFE) on how much of the currency in the mainland can be converted and transferred overseas. As a result, Hong Kong has the potential to be an entry point for transactions using renminbi as payment.

China has also signed Currency Swap Agreements with 35 countries of approximately US\$500 billion notional amount<sup>24</sup> continuing to signal China's intention to promote the wider acceptance and use of the renminbi for trading investments and reserve purposes.

## Conclusion

The pace of acceptance of the renminbi will continue to move along. On its journey toward becoming a true global currency, there appears to be expanding interest in the nearer and medium term to both public and private investors along the revitalized silk roads.

## About the Authors



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19. <http://www.chinanews.com/fortune/2016/09-21/8009461.shtml>

20. <https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/Renminbi-tracker/document-centre>

21. <http://www.silkroadfund.com.cn/enweb/23809/23812/26911/index.html>

22. <https://www.ft.com/content/1b200bd2-617e-11e7-91a7-502f7ee26895>

23. <http://www.pbc.gov.cn/huobizhengceersi/214481/214511/214695/3223865/2016123011063632789.pdf> Page 22; [http://www.bankofchina.com/aboutboc/bi1/201609/t20160921\\_7705706.html](http://www.bankofchina.com/aboutboc/bi1/201609/t20160921_7705706.html); <http://www.icbc.com.cn/icbc/en/newsupdates/icbc%20news/RMBClearingBankinRussiaOfficiallyLaunched.htm>; [http://news.xinhuanet.com/fortune/2016-12/09/c\\_129398204.htm](http://news.xinhuanet.com/fortune/2016-12/09/c_129398204.htm)

24. <http://www.pbc.gov.cn/huobizhengceersi/214481/214511/214541/2967384/2016072010054297624.pdf>;