

# Gaining Currency: The Rise of the Renminbi



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by Eswar S. Prasad

★★★★☆ 4.4 out of 5

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The renminbi (RMB), also known as the Chinese yuan, has emerged as a major global currency, reflecting China's growing economic power. In 2022, the RMB became the world's fifth most used currency in international payments, surpassing the Japanese yen and the Swiss franc.

The RMB's rise is driven by a combination of factors, including China's increasing share of global trade, the growing internationalization of the Chinese economy, and the Chinese government's efforts to promote the use of the RMB in international transactions.

China's share of global trade has increased significantly over the past two decades. In 2000, China accounted for just 4% of global exports; by 2021, that share had risen to over 15%. This growth in trade has led to an increased demand for the RMB as a means of payment for Chinese goods and services.

The Chinese economy has also become increasingly internationalized over the past two decades. Chinese companies have invested heavily in overseas markets, and China has become a major destination for foreign investment. This has led to an increased demand for the RMB as a means of facilitating investment and trade between China and the rest of the world.

The Chinese government has also taken steps to promote the use of the RMB in international transactions. In recent years, the government has relaxed restrictions on the use of the RMB in cross-border trade and investment, and it has encouraged Chinese banks to establish branches in major financial centers around the world.

The RMB's rise has had a significant impact on the world economy. The RMB's inclusion in the International Monetary Fund's (IMF) Special Drawing Rights (SDR) basket in 2016 was a major milestone in the currency's internationalization. The SDR is a basket of currencies used by the IMF to determine the value of its loans, and the inclusion of the RMB in the SDR basket signaled the IMF's recognition of the RMB's growing importance in the global economy.

The RMB's rise has also led to increased volatility in global currency markets. The RMB's value is managed by the Chinese government, and changes in the government's exchange rate policy can have a significant impact on the value of the RMB and other currencies.

The RMB's rise has also presented challenges for the Chinese government. The government is facing pressure from the United States and other countries to allow the RMB to appreciate more freely, and the

government is also concerned about the potential for capital flight from China if the RMB appreciates too quickly.

Despite these challenges, the RMB is expected to continue to rise in importance in the global economy. China's economic power is continuing to grow, and the government is committed to promoting the use of the RMB in international transactions. The RMB is likely to become a fully internationalized currency in the coming years, and it is likely to play an increasingly important role in the global financial system.



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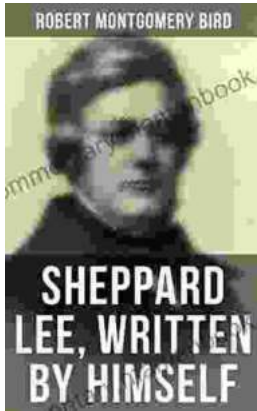
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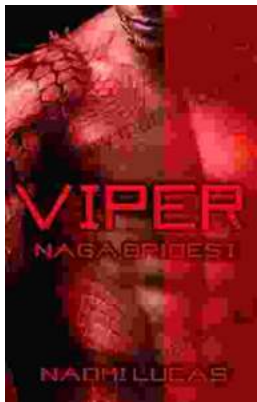
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