



Factors Determining the Globalization of Renminbi

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ABSTRACT

The Renminbi also known as RMB is the main currency of China. The main purpose of this study is to find the major factors that may cause RMB to be used in globe. Therefore this paper is analyzing the internalization of the RMB currency, the improvements of the reserve currency in China, as well as the capital account convertibility to determine whether RMB can be a global currency. To identify these variables, correlation analysis as well as regression analysis using SPSS are applied. The final result reveals that there is a strong relationship between reserve currency and capital account convertibility towards the globalization of the RMB.

Keywords: Capital account convertibility, reserve currency, RMB internalization.

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1.0 INTRODUCTION

The United States (US) financial crisis of 2007-2008 has made another wave of examination about the change of the worldwide financial framework. By and by, the US dollar-focused store framework has been firmly censured for its extravagant benefits, which cause financial instability as well as offer climb to imbalance in the middle of rich and poor nations (Zhou 2009). Albeit different change suggestions have been more than once introduced, for example, a come back to the highest level, formation of a solitary world cash, unique drawing right-based recommendations, and an enhanced US dollar standard, numerous economists accept that a multipolar money framework is the most reasonable improvement soon, or even in the impending decades (Eichengreen, 2011). Through money rivalry, any store cash – issuing nation could get to be more trained in its financial and other macroeconomic approaches, which could in the long run lead to a steadier universal fiscal framework (Zhang 2012).

There has been an agreement that the US dollar, the euro, and an Asian currency ought to be the primary parts of the multipolar reserve system. Until 2009, numerous economists accepted that either the Japanese yen or a kind of incorporated money, called the Asian dollar, could be the mainstream in Asia

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and turn into one of the mainstays of the multipolar systems. Be that as it may, since 2009, the currency of the China the Renminbi (RMB), has been progressively utilized in exchange settlements and different cross- fringe money related exchanges, showing that the coin structure of the multipolar system may take an alternate structure.

Hai and Yao (2010) analyzed the profits and difficulties of RMB internationalization, contending the cross outskirts dissemination of RMB would have a little effect on the viability of the China's fiscal strategy, in view of the VAR model. Zhang (2013) pointed out the arbitrage dangers amid the methodology of RMB internationalization. Li and Liu (2008) recommended that, because of the China's high reserve funds rate, the profit of getting universally may be low, and considering monetary constraint (counting premium rate controls, credit imperatives, capital controls and so on.), the profit of seigniorage pay after China's capital record liberalization on the China's fund industry, including the keeping money segment, stocks, the security business sector, and protection. They exhibited that the impacts of RMB internationalization on the China's budgetary industry would be dependable and significant.

China has climbed to turn into the second biggest economy on the planet. Its monetary weight is especially prominent in Asia Pacific, being the biggest exchanging guardian of a large portion of the economies in the district. In later years, the nation's budgetary markets and money related linkages with Asia and whatever is left of world have additionally been extending quickly. One impression of such advancements is the finding by the Bank of International Settlement's 2013 Triennial Central Bank Survey that the RMB now positions the ninth most exchanged money on the planet, and the most exchanged Asia. Developing exchange interfaces and residential utilization of the worldwide cash might likewise urge powers to settle the conversion scale of the local coin against the global money (He and Mccauley, 2010).

This paper is trying to identify the major factors that determine the internationalization of the Renminbi. Among others, RMB internalization, capital account convertibility, and reserve currency are the main factors that are going to be discussed and examined in this paper. These questions are examined via regression analysis. The findings revealed that there is a strong relationship between the capital account convertibility, and reserve currency with the globalization of the Renminbi.

The remainder of the paper is organized as follows. Section 2 outlines the extant literature, while Section 3 introduces the basic theory underlying the research methodology. Section 4 describes the data, and empirical findings. Section 5 concludes the paper.

2.0 LITERATURE REVIEW

2.01 INTERNALIZATION OF RMB

Cohen (2012) is similarly distrustful of a fast RMB disguise. The methodology, he composes, 'is unrealistic to be as smooth or as quick the same number of have anticipated'. The RMB's prospects as a worldwide currency additionally stay dubious when China's severe financial environment is considered. Prasad and Ye (2011) insight at more extensive scope of policy changes – particularly those identified with financial business improvement, swapping scale adaptability, and capital record liberalization –as essential (yet requesting) steps that must be taken before the RMB can be utilized substantially more universally.

The profits of having a global currency are six fold. Consider them from China's perspective. First under an internationalized RMB administration, Chinese merchants and exporters will acknowledge substantial additions from the end of conversion scale hazard as they start to receipt and settle exchange their own currency. Exchanging accomplices will be induced to acknowledge RMB invoicing. This ought to be generally simple to arrange with exchanging accomplices from nations with less internationalized coinage. The same acknowledgement may be harder to secure from exchanging accomplices in cutting edge nations.

Second, when firms and financial organizations can obtain from abroad and outside organizations and foundations can issue security in China, the Chinese household security markets - and financial markets as a rule – will get to be deeper. Arbitrage in the middle of residential and outside (seaward) markets will get to be conceivable and financial markets will get to be more effective. This will help residential financial specialists and borrowers advantage from financial framework as higher returns and lower getting expenses.

Third, the Chinese government and in addition private -area financial establishments will appreciate lower acquiring expenses without conversion standard danger in light of the fact that they will have the capacity to issue local currency-designated bonds. China will have the capacity to stay away from the currency crisscross cap has been an issue in numerous developing business sector emergencies before. China will at present need to be careful about getting excessively in local currency–designated bond, an enticement to which numerous propelled economies have succumbed before.

The global parts of a currency are nearly identified with the three essential capacities of cash. Case in point, general society and private capacities including the employments of the currency to mediate in remote trade markets, to peg a nearby currency, to hold global reserves, to execute universal exchange and venture, to receipt worldwide exchanges and to store private riches (Cohen 2012; Chinn and Frankel 2005; Genberg 2009; Kenen 2002; Krugman 1984). Some internationally exchanged wares, including gold oil, are expectedly designated in a conspicuous worldwide currency, for example, the US dollar. A typical pointer of the worldwide part of a currency is the degree to which it is utilized as an invoicing currency. Despite the fact that point by point data on invoicing conduct is rare, narrative proof and some late studies on exchange invoicing recommend that US dollar is the most generally utilized invoicing currency, took after by the euro and the Japanese yen (Goldberg and Tille 2008). The broad utilize these monetary forms as a part of invoicing exchange is seen as screen of their driving exchange parts in the worldwide remote trade market.

2.02 RESERVE CURRENCY OF RMB

Initially, as far as monetary size, China is prone to surpass the US at some point around 2025 and exceed it from there on. Second, as respects low expansion and swapping scale security, RMB from the beginning appears to possess all the necessary qualities as of now. Then again, China keeps up capital controls and a semi pegged conversion scale. So it can't be said to have finished the test yet. Then again, there is little motivation to accept that China won't have the capacity to keep up low swelling and relative swapping scale solidness in the event that it moves towards convertibility in a slow way joined by the fundamental residential institutional changes (e.g. national bank autonomy, expansion focusing on).

Aside from the need to change the current universal monetary framework the inexorably quicker pace of liberalization in conversion standard and capital record lately have made numerous to accept that the RMB could possibly turn into another reserve currency (Subramaniam 2012, Prasad and Ye 2011). While the worldwide ramifications of RMB disguise is a fascinating point, past studies have additionally recognized huge effect of RMB in the East and Southeast Asian area (Fratzcher and Mehl 2011), and some even claim that a RMB alliance is as of now fit as a fiddle (Subramaniam and Kessler 2012).

As Murphy and Yuan (2009) of the CSIS composed at an early phase of the financial crisis, China would soon be prepared to practice a bigger say in the pending change of the universal financial framework, and by method for a worldwide RMB, hit the United Expressed status as backer of the accepted worldwide reserve currency. They cautioned that US expected to make moves to keep up the part of the dollar by "applying endeavors to draw out the (dollar's predominant) status as far as might be feasible, as is to the greatest advantage of the United States.

2.03 CAPITAL ACCOUNT CONVERTIBILITY OF RMB

As in different nations, climbing capital account convertibility presents China with gigantic open doors and difficulties. Boss amongst these is the topic of what effect it will have on speculation proficiency and financial area security. Some see capital account liberalization having a beneficial outcome in both regards (Dorn 2003). This perspective holds that regardless of its general financial achievement, China still keeps up an immature financial part, where the giving choices of the overwhelming state-claimed banks are built more with respect to government privileges than the gainfulness of capital. Various studies have indicated non-paltry volumes of capital entering and leaving China through informal channels (Eichengreen 2009; Wu & Pei 2012). Amid the Asian emergencies, the proof indicated a surge in capital flight, i.e., unrecorded capital outflows. Since 2001, hypothesis of a looming RMB thankfulness implies that capital flight has offered approach to inflows of hot cash.

As indicated by Luo & Jiang (2005), it is broadly acknowledged that useful impacts can be normal if capital account convertibility takes after exchange liberalization. General contentions are advanced to help a radical opening of the creating economy- organized commerce will make it conceivable to distinguish the nation's similar advantages; global rivalry will clip down on local imposing business models and help build the benefit of household suppliers; the overall population will advantage from a riche supply of remote merchandise, which will expand the base of supporters for the change program.

3.0 RESEARCH METHODOLOGY

This paper utilizes the primary data collection and data analysis. SPSS used to perform the correlation test as well as regression analysis. Prior to the distribution of the questionnaire, the respondents were told about the objective of the survey and their participation was voluntary and not forced. A majority of the respondents were happy to participate and provide information. The respondents were also informed that their answer will only be used for the research purpose and would remain confidential. The main objectives of this paper are as below as a measurement of the globalization of the RMB:

- To identify whether the internalization can affect the RMB to become a worldwide currency.
- To determine whether capital account convertibility can be used to help RMB going global.
- To test whether reserve currency can efficiently affect the RMB to become global currency.

3.01 SAMPLING SIZE

The sampling size includes the number of samples to be used in the research. In this study, a sampling size of 200 respondents was targeted to take part in answering the questionnaire.

4.0 RESULTS AND ANALYSIS

In the section illustrated below, the researcher will carefully analyze the findings from the survey conducted by the use of various analysis techniques. These include correlation analysis, discrete statistics, regression and coefficients. The demographics of the respondents will also be presented in this particular section.

Table 1: Demographics of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	95	47.5	47.5	47.5
Female	105	52.5	52.5	100.0
Managers	70	35.0	35.0	35.0
Executives	66	33.0	33.0	68.0
Non Executives	64	32.0	32.0	100.0
18 to 25 years old	47	23.5	23.5	23.5
26 to 40 years old	59	29.5	29.5	53.0
40 to 50 years old	43	21.5	21.5	74.5

50 years and above	51	25.5	25.5	100.0
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In this Section of the questionnaire, basic information of the respondents was asked including gender, age and designations. According to the findings of the 200 samples, 47.1.% are female, indicating that female responding lesser than male, who accounted for 52.9% of the sample. Looking into the designation profile, there are 24% of Managers in this study, 52% are Executives and the remaining 24% are non-executives.

4.01 PEARSON CORRELATION

Pearson Product Moment Correlations were computed on selected pairs of variables in Tables 2. This was conducted to test for direction and strength of the correlation between variables. Examination of the correlation of the variables (Table 2), RMB going global was positively related to internalization ($r = 0.192$), negatively correlated to reserve currency ($r = -0.227$), and negatively correlated with Capital account ($r = -0.628$).

Table 2: Pearson correlation results

Dependent variable		Internalization	Reserve currency	Capital account
Globalization of RMB	Pearson Correlation	0.192**	-0.227**	-0.628**
	Sig. (2- tailed)	.000	.000	.000
	N	200	200	200

Table 3 provides the critical values for Pearson correlation test. According to the result obtained in table 2 it can be seen that; internationalization and reserve currency are weakly related to the globalization of RMB, while capital account moderately correlated with dependent variable.

Table 3: Pearson correlation critical values

Value of the correlation coefficient	1	0.7-0.9	0.4-0.6	0.1-0.3	0
Strength of correlation	Perfect	Strong	Moderate	Weak	zero

4.02 MULTIPLE REGRESSIONS

Table 6 is the summary table of multiple regression analyses in RMB going global. Before that resource from Table 2 found that three variables significantly correlated with RMB going global, namely: internalization, reserve currency and capital account.

Table 4: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.641	.499	.4480	.398

Predictors: (Constant), Intl., Conver., Reser.

Table 5: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	29.546	3	6,567	41.163	.000 ^b
Residual	23.678	136	.169		
Total	47.897	137			

Dependent Variable: quality and predictors: (Constant), Intl., capital acc., Reser.

Table 6: Regression coefficients

	Unstandardized		standardized		
Variables	B	Std. Error	Beta	t-stat	Sig.
(Constant)	13.225	1.086		12.180	0.000
Reserve Currency	0.420	0.097	0.101	4.296	0.019
Internalization	0.800	0.710	0.820	1.135	0.258
Capital account	0.805	0.820	0.650	9.763	0.000

Dependent variable: RMB globalization

The F-statistic from ANOVA table for the overall goodness of fit of model is 41.163, which is significant at 5%. The R-square is 0.499 which shows that almost 50% of the variation in RMB globalization is explained by these three independent variables mentioned above. Based on the regression results from table 6, the three objectives can be summarized in below:

Objective #1: To identify whether the internalization can affect the RMB to become a worldwide currency.

The result of regression analysis shows that there is positive relationship between internationalization and RMB globalization. But this relationship is not significant.

Objective #2: To test whether reserve currency can efficiently affect the RMB to become global currency.

The result of the findings is turned out positive. The relationship between the reserve currency and the globalization of RMB found to be significant. As far as the responses of the targeted respondents are concerned, many of them have indicated their support for the need to improve the reserve currency if RMB has to become a global contender to USD. Some (few) respondents indicated to be neutral while few others mentioned its needless to improve and other measures of economic empowerment needs to be undertaken by China with immediate effect. Hence, since majority is deduced from those indicated positive and those with neutral response, the above object is well supported and hence it will be a fair conclusion to support the above objective.

Objective #3: To determine whether capital account convertibility can be used to help RMB going global.

The results of the findings also turned out positive. The relationship between the capital account and RMB globalization found to be significant. Since capital account convertibility has to do with China's transaction and financial assets overseas and its liabilities, China needs to closely examine if RMB has to immediately roll-out as a global currency. This will include but not limited to China's inward capital flows and abroad investments as well. Besides, this will help China as a global investor to have higher returns on investments by sharing risks with oversea partners. This will also offer a very good access to better markets and reliable liquidity at the same time. Hence, having many of the respondents provided well enough support for this objective and their indication that capital account convertibility has great impact and significance to RMB's going global is very soundly conclusive. The researcher can disregard the minor rejections of the few respondents in this particular case.

5.0 DISCUSSION

The main focus area of this research work undertaken was to testify whether RMB could possibly go global and contend with the USD in the fiercely competitive global stock market arena. The data have been deeply analyzed with various special techniques namely correlations, regression, discrete statistical analysis with interdependence matrix for variables that have knock on effects on each other.

Moreover, in order for RMB to go globally with significant effect, there need a work to be done by China when it comes to improve its reserve currency. This was greatly supported by the findings of this research

as well with positive remarks given by many of the respondents. As expected by the researcher and as part of the findings of secondary research done by Ayden & Ozer (2005), and Hsin-Hui & Yi-Shun (2005), there needs significant improvement on the reserve currency if and only if RMB has to make its way to going global. In addition to this, the previously carried out research work of Tariq & Moussaoui (2009) and Zhaohua, Yaobin, Kwok, Kee and Jinlong (2009) further endorse the importance of China's need to give undivided attention to improving its reserve currency to pave the way for RMB on its way of challenging the USD.

Furthermore, the capital account convertibility has indicated a dramatically positive turnout for RMB to make its move as a global currency. To ensure the success of this finding, China place strong measures of control for its financial outflows with its global trade partners. Besides, the reserve currency has to be traded freely in conjunction with the above in order to have smooth pathway for RMB getting global. Above all, China needs to have all it takes for RMB to replace the USD in the globally competitive stock market exchange, which is presently dominated and conquered by the US Dollar. In addition to that, the above finding on capital account has been duly supported by the secondary research work conducted by Mohan et al (2011) as well as that of Turbulence & Buyoff. They have both undoubtedly proven the existence of the above correlation that if the capital account of RMB is given significant attention by China, then it will unquestionably go global and push the USD to the edge in the existing competition for stock market exchange dominance.

6.0 CONCLUSION

The main aim of this purpose was to determine the variables in order for RMB to come out as a global currency. Hence, China should be able to provide the following to ensure RMB goes global and replaces the USD that dominated the stock market exchange. Firstly, there needs to be a significant improvement in the reserve currency to pave the way for RMB to become a global currency in the near future. Secondly, there need the capital account convertibility that needs to be accounted for. This as discussed above will provide RMB a strong pace and potential to contend with the USD in the market dominance.

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