

#37 Internationalization of the RMB: Status, Options and Risks

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Key Takeaways

- The internationalization of the Renminbi (RMB) is a long-term project that has evolved gradually through a series of policy initiatives, infrastructure developments and external shocks over the past few decades.
- The international use of the RMB has seen only modest progress in the past 15 years, but China has substantially expanded the institutional infrastructure that underpins this internationalization.
- Internationalization could be accelerated through (i) policy changes making the RMB a more attractive currency and by (ii) increasing the international demand for the RMB as an alternative to the USD and (iii) as a means to provide a safety net for international transactions.
- China's authorities are at a crossroad with the internationalization of the RMB.

Possible Futures for RMB Internationalization

1. **Rapid Rise** scenario: China would take the necessary steps to accelerate RMB internationalization within a benevolent external environment.
2. **Slow Internationalization** scenario: China would maintain its current cautious and incremental approach toward RMB internationalization.
3. **Safety Net** scenario: China's policymakers would adopt a defensive approach in an adversarial environment, focusing on maintaining the country's ability to conduct international transactions while limiting exposure to external financial pressures.
4. **Great Leap** scenario: necessity rather than strategic planning would become the driver of the policy moves leading to a wider use of the RMB.

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Executive Summary

The internationalization of the Renminbi (RMB) is a long-term project that has evolved gradually through policy initiatives, infrastructure developments, and external shocks over the past decades. This report examines the key push and pull factors behind increasing RMB internationalization, its link to China's broader monetary and financial policies, and the consequences for Dutch and European economic security and the Euro area's monetary sovereignty. Research was conducted under the LeidenAsiaCentre and commissioned by the China Knowledge Network; conclusions are those of the authors.

The main conclusion is that international use of the RMB has seen only modest progress over the past 15 years, yet China has substantially expanded the institutional infrastructure underpinning it. Internationalization could accelerate through policy changes making the RMB more attractive, increased global demand as an alternative to the USD, and its role as a safety net in a more adversarial world. China's authorities now face a crossroad with respect to RMB internationalization.

The international use of the RMB still falls short of China's economic significance. As of 2024, the RMB constitutes 2 percent of international reserves, less than 5 percent of SWIFT payments, and around 2–2.4 percent of cross-border loans and debt. In China's own cross-border transactions, over half are denominated in RMB. Historical parallels suggest slow progress is not surprising: the USD took decades to become dominant, while Japan's attempts to internationalize the Yen largely stalled.

At the same time, China has developed considerable institutional and infrastructural arrangements. The RMB-based international payment system, offshore RMB clearing banks, and the Cross-Border Interbank Payment System (CIPS) have streamlined cross-border settlements and reduced reliance on USD systems. Domestic platforms such as the China Foreign Exchange Trade System (CFETS) allow direct trading against multiple currencies, and initiatives like mBridge highlight potential for cross-border CBDC integration.

Access to RMB investment has increased through schemes like QFII/RQFII and Stock Connect, improving liquidity and cross-border participation. RMB funding mechanisms, including panda and dim sum bonds and bilateral swap lines by the People's Bank of China, further expand foreign access. While volumes remain small relative to USD markets, these developments have fostered a growing RMB ecosystem for trade, investment, and finance.

Despite progress, challenges remain: capital controls, underdeveloped domestic markets, and a managed exchange rate limit broader adoption. RMB internationalization is not intended to replace the USD but to enhance China's financial autonomy and reduce vulnerability to external shocks.